UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	Investigation Nos.:
CARBON AND ALLOY STEEL THREADED	)	701-TA-618-619 AND
ROD FROM CHINA, INDIA, TAIWAN,	)	731-TA-1441-1444
AND THAILAND	)	(FINAL)

Pages: 1 – 111
Place: Washington, D.C.
Date: Tuesday, October 15, 2019

ACE·FEDERAL

Ace-Federal Reporters, Inc.
Stenotype Reporters
555 12th Street, NW
Suite 630-A
Washington, D.C. 20004
202-347-3700
Nationwide Coverage
www.acefederal.com

THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	Investigation Nos.:
CARBON AND ALLOY STEEL THREADED	)	701-TA-618-619 and
ROD FROM CHINA, INDIA, TAIWAN	)	731-TA-1441-1444
AND THAILAND	)	(Final)

Tuesday, October 15, 2019
Main Hearing Room (Room 101)
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The meeting commenced, pursuant to notice, at 9:33 a.m., before the Investigative Staff of the United States International Trade Commission, Chairman David S. Johanson, presiding.

APPEARANCES:

Commissioners Present:

Chairman David S. Johanson (presiding)
Commissioner Rhonda K. Schmidtlein
Commissioner Jason E. Kearns
Commissioner Randolph J. Stayin
Commissioner Amy A. Karpel

Staff:

WILLIAM R. BISHOP, SUPERVISORY HEARINGS AND INFORMATION OFFICER

TYRELL T. BURCH, MANAGEMENT ANALYST

SHARON BELLAMY, RECORDS MANAGEMENT SPECIALIST

AHDIA BAVARI, INVESTIGATOR

KRISTINA LARA, INVESTIGATOR

GREGORY LA ROCCA, INTERNATIONAL TRADE ANALYST

JAMES HORNE, INTERNATIONAL ECONOMIST

DAVID BOYLAND, ACCOUNTANT/AUDITOR

PATRICK GALLAGHER, ATTORNEY/ADVISOR

ELIZABETH HAINES, SUPERVISORY INVESTIGATOR

Opening Remarks:
Petitioner (Luke A. Meisner, Schagrin Associates)

In Support of the Imposition of Antidumping and
Countervailing Duty Orders:
Schagrin Associates
Washington, DC
on behalf of
Vulcan Threaded Products, Inc.
    Christopher Graham, Senior Vice President,
        Long Product Group
    Dennis Black, General Manager,
        Vulcan Threaded Products, Inc.
    Alan Logan, Customer Service Manager,
        Vulcan Threaded Products, Inc.
    Brent Jenkins, Bar Mill Product & Marketing Manager,
        Vulcan Threaded Products, Inc.
    Walter Gross, President,
        Bay Standard Manufacturing, Inc.
    Paul Diorio, President,
        Dan-Loc Group
    Roger B. Schagrin, Elizabeth J. Drake, Luke A. Meisner
        - Of Counsel
CLOSING REMARKS:
Petitioner (Roger B. Schagrin, Schagrin Associates)

INDEX

P R O C E E D I N G S

(9:33 a.m.)

MR. BISHOP: Will the room please come to order.

CHAIRMAN JOHANSON: Good morning. On behalf of the U.S. International Trade Commission, I welcome you to this hearing on the Final Phase of Investigation Numbers 701-TA-618 to 619 and 731-TA-1441 to 1444, Final, involving Carbon and Alloy Steel Threaded Rod from China, India, Taiwan, and Thailand.

The purpose of these final investigations is to determine whether an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States has materially retarded by reason of imports of carbon and alloy steel threaded rod from China, India, Taiwan, and Thailand.

Schedules setting forth the presentation of this hearing, notices of investigation, and transcript order forms are available at the public distribution table. All prepared testimony is to be given to the Secretary. Please do not place testimony directly on the public distribution table.

All witnesses must be sworn in by the Secretary before presenting testimony. I understand that parties are aware of the time allocations. Any questions regarding the time allocations should be directed to the Secretary.

Speakers are reminded not to refer in their remarks or answers to questions to business proprietary information. Please speak clearly into the microphones, and state your name for the record for the benefit of the Court Reporter and for those sitting in the back of the room.

If you will be submitting documents that contain information you wish classified as business confidential, your requests should comply with Commission Rule 201.6.

Mr. Secretary, are there any preliminary matters?

MR. BISHOP: Mr. Chairman, I would note that all witnesses for today's hearing have been sworn in. There are no other preliminary matters.

CHAIRMAN JOHANSON: Very well. Let us begin with opening remarks.

MR. BISHOP: Opening remarks on behalf of Petitioner will be given by Luke A. Meisner of Schagrin Associates.

Mr. Meisner, you have five minutes.

OPENING STATEMENT OF LUKE A. MEISNER

MR. MEISNER: Good morning, Chairman Johanson and members of the Commission. My name is Luke Meisner from the Law Firm of Schagrin Associates. We represent the Petitioner in these investigations, Vulcan Threaded Products.

Today you will hear from the witnesses how the domestic industry invested in assets to produce steel threaded rod during a time when demand for the product was increasing. But despite increasing demand for this product, the domestic industry experienced declines in its financial performance and other indicators.

The reason is simple: Unfairly traded imports of steel threaded rod from China, India, Taiwan, and Thailand. As I am sure you are aware, this is not the first time this domestic industry has been forced to seek relief from unfair trade.

In April of 2009, an antidumping duty order was issued against carbon steel thread rod from China. Since that time, the Chinese producers have shifted from carbon products to alloy products.

In 2013, the domestic industry filed petitions against imports from India and Thailand. Commerce found dumping and subsidization, but the Commission reached a negative determination. Today, the need for relief from unfair trade is even more compelling.

For example, when the prior petitions were filed in 2013, imports of carbon products from India and Thailand had peaked at 47 million pounds. Last year, imports of carbon products from these two countries reached a new high of 65 million pounds. And imports from all of the subject countries exceeded 250 million pounds last year.

All of the statutory factors that the Commission considers in its injury analysis are met. On volume, the information collected by the Commission staff shows that subject imports compete with each other and the domestic like product, and should thus be cumulated for the Commission's analysis.

Looking at subject imports cumulatively from 2016 to 2018, subject imports increased by over 47 percent and they continued to increase another 22 percent in the first half of 2019.

At the same time, subject imports continued to capture a remarkable share of the U.S. market. I think it is safe to say that the Commission has never before seen a case like this one where subject imports constitute such a dominant part of the U.S. market.

Subject imports have captured this market share by underselling the domestic like product. They undersold the domestic like product in 87 percent by volume of pricing comparisons. And purchasers confirmed that they switched over 23 million pounds of purchases to subject imports due to price.

Persistent underselling also negatively impacted price. Raw material costs rose over the POI, but subject imports prevented the domestic industry from raising prices to keep pace with these rising material costs. That leads us to impact on the domestic industry.

Consider these facts: Demand for steel threaded rod boomed over the POI, but the domestic industry's production, shipments, and employment lagged far, far behind this boom.

Vulcan purchased production equipment in August 2017 that has literally been collecting dust because Vulcan has not been able to use the equipment to make additional steel threaded rod in this country.

You will hear from other domestic producers that they were forced to import steel threaded rod instead of making it in their domestic facilities. Why? Because import prices were lower than their cost of manufacturing.

Finally, the domestic industry saw declines in its operating income and net income that can only be explained by the impact of subject imports.

In addition to having already caused material injury, subject imports also threaten additional material injury. Foreign producers have massive capacity and receive large export subsidies that encourage them to target the United States.

Without the discipline of orders in place, subject imports will continue to surge and capture additional U.S. market share.

These cases have the potential to make a beneficial and lasting impact. You will hear many witnesses testify today how their companies are eager to make investments in new production capacity, if final orders are issued in these cases.

These investments would create new jobs and revitalize the communities where they operate. That is precisely why the trade remedy laws were created and why we are here before you today.

Accordingly, we ask that you reach an affirmative final determination in this investigation. Thank you.

MR. BISHOP: Thank you, Mr. Meisner.

Mr. Chairman, the panel in support of the imposition of antidumping and countervailing duty orders have been seated. This panel has 60 minutes for their direct testimony.

CHAIRMAN JOHANSON: You all may proceed whenever you'd like.

STATEMENT OF ELIZABETH DRAKE

MS. DRAKE: Thank you, Chairman Johanson. This is Elizabeth Drake of Schagrin Associates, on behalf of the Petitioner. We would like to begin our session with a short PowerPoint presentation reviewing some of the key publicly available facts of record in these investigations.

(PowerPoint presentation follows:)

I will come up in just a sec. I will go ahead and start just with an overview of the topics that we're going to address. Here we go.

First we will address cumulation, and then we will talk about the conditions of competition. Then we will address the volume of subject imports, their adverse price effects, the impact they have had on the domestic industry, and the threat of additional injury that those imports pose.

With regard to cumulation, we think the record strongly supports cumulating imports from all four countries. They are fungible. The Commission's staff report shows that a large majority of purchasers report that imports from each of the subject countries are always or frequently interchangeable with each other and with the domestic like product, and most purchasers report that imports from each of the four countries and the domestic like product are comparable across a large majority of purchasing factors.

These imports and the domestic like product are present in the same channels, largely in distribution; they're available in all regions of the country; and they've been present in every month of the Period of Investigation. These imports should, therefore, we cumulated.

Turning to conditions of competition, during the Period of Investigation supply was plentiful both from foreign producers and from the domestic industry, which was operating at very low rates of capacity utilization.

The period was also characterized by a very rapid rise in demand. But that demand is starting to fall. To of the two key end use markets for steel threaded rod are nonresidential construction and the oil and gas industry. Construction rose by 48 percent over the Period of Investigation, and the oil and gas rig count rose by more than 10 percent. But both of those peaked in late 2018 and have been falling since that time, which makes the domestic industry vulnerable to further injury given the fact they haven't been able to participate in the sharply rising demand during the POI.

Another important condition of competition is the high degree of substitutability between subject imports and the domestic like product. The chart here on the left has the percentage of purchasers reporting that imports from each of the subject countries are always or frequently interchangeable with the domestic like product. And that ranges from 69 percent to over 80 percent of purchasers for each of the subject countries.

The chart on the right has the percentage of purchasing factors on which purchasers report that the subject imports and domestic like product are comparable. And for 12 out of 15, or 13 out of 15 factors, they are rated as comparable, a notable exception being price, in which purchasers agree that the subject imports from all four countries are priced lower than the domestic like product.

Given the high degree of interchangeability between the standard commodity products built to standard specifications, price is a very important factor in purchasing decisions.

Over 85 percent of purchasers report that price is one of their top three purchasing factors, and it as also the most frequently cited number one purchasing factor by purchasers.

In addition, 80 percent of purchasers report that price is a very important purchasing factor, with all of the remaining reporting that it is at least somewhat important. While there are a few other factors that are rated as important as price, such as availability and quality, these are the factors that purchasers report are comparable for domestic product and imports, price being the outlier where they are not comparable.

So we have very interchangeable products competing on the basis of price.

Another important condition of competition in the domestic market for steel threaded rod is that demand for threaded rod is inelastic, meaning that changes in prices for threaded rod do not lead to large changes in demand.

This is because there are no substitutes for threaded rod, and because it's a very small share of end use costs. So a construction company building a four-story building needs to have threaded rod, and that threaded rod is a tiny percentage of its overall cost. So it's not going to not build that building simply because costs go up by 10 or 20 percent. So demand is inelastic.

A final condition of competition that's important for the Commission to consider is the fact that raw material costs were rising during the period of investigation, which impacted the domestic industry together with the import competition.

Turning to volume, the volume of subject imports is significant by any measure. Imports rose from nearly 180 million pounds in 2016 to over 260 million pounds in 2018, an increase of over 47 percent, and they continue to increase by over 22 percent in the interim period. These imports are also significant relative to domestic consumption.

This next slide is based on public data from the Preliminary Determination, not based on the confidential data in the prehearing staff report, but we believe they would be similar. But the Preliminary Determination showed that subject imports already held a very large, 50 percent of the U.S. market in 2016, and that increased to over 58 percent of the U.S. market in 2018.

So although demand is rising rapidly, subject imports rose much more rapidly and they did so at the expense of the domestic industry. The bottom bar is--the bottom part of the bar is the domestic industry whose market share fell from 46 percent in 2016 to 39 percent at 2018. And the very top light-colored bar is nonsubject imports, which clearly are not a very important factor in the market. So we think the volume of subject imports is clearly significant in this case by any measure.

Though subject imports have also had adverse price effects in terms of underselling, the Commission staff report shows that subject imports undersold the domestic like product in over 68 percent of quarterly comparisons, and that the volume of subject imports that undersold the domestic like product accounted for over 87 percent of the total volume of imports reported as pricing products.

This underselling also occurred at significant margins, averaging over 13 percent, and reaching as high as 62 percent. And the fact that this underselling coincided with the increase in subject import market share at the expense of the domestic industry we think supports finding that this underselling is significant.

Another factor showing the significance of this underselling is the lost sales and lost revenue allegations that were confirmed in the Commission staff report with 22 out of 35 purchasers confirming that they switched from domestic to subject imports, and 14 of those 22 purchasers reporting that the primary reason was price, accounting for over 23 million pounds of purchases over the Period of Investigation.

And just to put that in context, that is equal to over a quarter of the total increase in subject imports being confirmed as lost sales due primarily to lower prices.

Subject imports have also had adverse price effects through price suppression. Again, this is based on public data from the preliminary phase of the investigation. You can see that though the domestic industry was able to raise its prices somewhat over the Period of Investigation, these lagged behind the increases in its cost of goods sold due to the competition with lower-priced subject imports.

In 2016, the domestic industry's ratio of COGs to sales was already high, nearly 72 percent. By 2018, it had reached over 79 percent. And again, with rising demand and demand being inelastic, there would be no reason that the domestic industry would not be able to pass along these cost increases but for the increasing presence of low-priced unfairly traded imports.

The combination of these adverse volume and price effects had a very negative impact on the domestic industry during the Period of Investigation. Again, this is public information from the preliminary phase. From 2016 to 2018, consumption rose by over 27 percent. Subject imports rose much more rapidly. That's the second bar. By over 45 percent. And the domestic industry's indicators lagged far behind.

Domestic production rose by less than 10 percent. Domestic U.S. shipments rose by only a little over 7 percent. Domestic employment, by about 4-1/2 percent. And domestic hours by only 6 percent.

So as demand was peaking at the top edge of those graphs we were looking at earlier, the domestic industry was losing out on the most important part of the market due to the more quickly rising subject imports.

Subject imports also negatively impacted the financial performance of the domestic industry. Again this is based on the preliminary phase. But we saw a decline both in operating income and in net income over the Period of Investigation. The lighter bar is operating income margin, and the darker bar is net income margin. They moved in tandem with operating income falling from 13.8 percent of sales in 2016 to just 9.5 percent in 2018. And the net income margin falling from 11.9 percent in 2016 to 8.4 percent in 2018.

So by every indicator, the domestic industry either lagged the increase in demand or actually saw a decline despite that increasing demand due to competition with subject imports.

In addition to the material injury the domestic industry has already suffered, they are facing an imminent threat of further injury if orders are not imposed on subject imports. For the reasons that the Commission should cumulate for present injury, we believe if the Commission examines threat it should also exercise its discretion to cumulate imports for the purposes of threat.

First, it is important to note that the Commission received no responses from foreign producers in China or Thailand, so it is deprived of a full picture of the full extent of the size of these producers and the extent to which they have excess capacity. But we believe even the data that the Commission does have, including public record data, establishes that these are very large industries and that they have excess capacity; that they are stimulated in China and India by export subsidies to further increase their exports; and that they are highly focused on the very attractive U.S. market; and that they have already proven that they are able and willing to use underselling to gain market share, and will only continue to do so if orders are not imposed. And as demand begins to soften, the domestic industry will be even more vulnerable to competition from these unfairly traded imports.

This last slide sort of gives a graphic presentation of the threat that the domestic industry is facing based on prior trends.

The chart on the left shows imports of carbon and alloy steel threaded rod from China. An antidumping order was imposed on carbon threaded rod from China in 2009. And since that time, it has pretty effectively disciplined some of the carbon imports from China, but the Chinese producers have simply switched to alloy or so-called alloy threaded rod exports in order to access the U.S. market, and those imports of alloy threaded rod from China have more than quadrupled from 2010 to 2018.

The chart on the right shows imports from India and Thailand of carbon threaded rod and, as Mr. Meisner noted, there were petitions filed on imports of carbon threaded rod from India and Thailand in 2013. At that point, imports were at a peak of over 46 million pounds. But since the cases have ended, those imports have only continued to increase and last year were at 65 million pounds. And again, this is just carbon threaded rod from those two countries.

So clearly if the domestic industry is not able to get relief at this point, we fear that we will only see continued such rapid increases in the imminent future causing more material injury to the domestic industry.

And with that, I would like to turn it over to Mr. Schagrin and our witnesses. Thank you.

MR. SCHAGRIN: Good morning Chairman Johanson and members of the Commission. My name is Roger Schagrin of the firm of Schagrin Associates, counsel to the Petitioner. I'd like to make a special welcome to the Commission to Commissioners Stayin and Karpel. We're glad you joined this wonderful professional body, and look forward to seeing you often over the next nine years, but I'm sure you don't want to see us too often. So we'll try to restrain ourselves and make it occasional.

With that, I'd like to introduce our first witness from the industry this morning. We have a very broad industry representation from three companies and a number of executives who together have well over a century of experience in this product in the steel industry. Chris Graham is the senior vice president of the Warren Products Group of Steel Dynamics. Chris.

STATEMENT OF CHRIS GRAHAM

MR. GRAHAM: Good morning Chairman Johanson and members of the Commission. For the record my name is Chris Graham. I'm the executive vice president of Long Products for Steel Dynamics Incorporated, also known as SDI. I've been in the steel industry for 35 years, ten with the

Nucor Corporation and 25 with SDI.

I've had the privilege of watching our company grow from 15 employees in 1994 to over 8,000 employees today. Our Long Products platform, which employs about 2,600 people is comprised of four steel mills and one manufacturing plant capable of making over four million tons of steel and steel-related products annually. These operations produce eye beams, rebar, railroad rail, angles, channels, forklift masks, specialty shapes and rounds and threaded rod.

Our Long Product facilities are located in Alabama, Indiana, Kentucky, Virginia and West Virginia. In 2016, SDI acquired a company in Pelham, Alabama by the name of Vulcan Threaded Products. SDI was the target acquired of the family that built, owned and operated Vulcan for over 30 years. Today I'm joined by three Vulcan colleagues, Dennis Black, Alan Logan and Brent Jenkins.

Vulcan has two very distinct product lines. ne is cold finished bar, which is sold for use in automotive, farm equipment and machinery. There's little import competition for this product, the other being threaded rod, which is primarily sold to distributors in the construction and energy markets. This market has been hugely impacted by imports. In 2017, as part of our Vulcan growth strategy, we purchased the distressed Indiana assets of the Acme All-American Threaded Rod Company. Our intention was to move the equipment to our Vulcan plant in Alabama and operate it there.

However, by the time the deal closed, imports had increased so significantly that we couldn't justify the cost of moving, installing and operating the acquired assets. We've chosen instead to leave them mothballed for the last two years. Steel Dynamics' ongoing commitment to grow in the United States is being demonstrated once again by our recent $1.9 billion investment in a three million ton a year greenfield hot rolled and cold rolled steel mill in Sinton, Texas, just outside of Corpus Christi.

This investment is a testament to the competitive of the American steel worker when the playing field is close to being level. This playing field was made more level by the affirmative injury determinations made by this very Commission on core, hot rolled and cold rolled in 2016 and 2017. We thank the Commission for those decisions.

The specter of trying to compete with unfairly priced flat rolled imports has historically kept domestic steelmakers from investing in the vast Southwest United States market. Partly as a result of the imposition of duties to offset unfair trade, a new domestic steel mill is finally being built in an area starved for domestic supply.

We came here today not looking for help for an inefficient company. We're here representing the employees of Vulcan and Steel Dynamics, the most efficient producers in their industries. As we've demonstrated in the flat rolled arena, a leveling of the playing field encourages the best companies to invest further. SDI stands ready to make investments in the threaded rod market. An initial investment of 15 to 20 million dollars in a new facility has already been contemplated, and is in the planning stages. This investment will allow Vulcan to replace a substantial share of the unfairly traded imports in the U.S. market if orders are imposed.

We understand our west coast competitor is undertaking similar expansion plans. Before turning it over to my colleagues on behalf of SDI, and in particular on behalf of our Vulcan associates, I want to express our thanks for all of your hard work. SDI believes that when the playing field is level, our highly motivated employees using the best resources in a safe and environmentally sound workplace, will out-compete anybody in the world. For these reasons, I ask you to make an affirmative injury determination.

MR. SCHAGRIN: Thanks Chris. The next witness is Dennis Black, the General Manager of Vulcan Threaded Products. Dennis.

STATEMENT OF DENNIS BLACK

MR. BLACK: Good morning Chairman Johanson and members of the Commission. For the record, I'm Dennis Black. I'm the general manager of Vulcan Threaded Products. Vulcan is a division of Steel Dynamics, which purchased the company in August 2016. Since that time, we have purchased major equipment and assets of All-America Threaded Products, from its principal place of business in Indianapolis, Indiana in August 2017.

I will discuss this further later, but I have been in the steel industry for 28 years, including 17 years with SDI. Vulcan was founded in Birmingham, Alabama in 1978. It is our only facility. Besides threaded rod, heat treated and cold finished bars are our only other products. We have developed plans for a second facility to produce threaded rod using the additional equipment that we've purchased, but we've been unable to follow through on these plans because of the surge of low priced imports.

To produce threaded rod, we purchase carbon or alloy rod on the open market and bring it into our facility. Smaller diameter products are uncoiled. For larger diameters, we buy straight bars. In all cases, we then draw, straighten and cut it to length for the customers' needs. We then take it to the machines where we thread the entire rod. Then much of the product is either hot-dipped galvanized or zinc plated. Our products are also heat treated, as are some medium carbon products. The products are then packaged and shipped.

Threaded rod is used primarily in construction to hang all manners of products for cable trays, lighting, pipe, air conditioning and vents, or to hold down things such as pipelines. The use of carbon and alloy threaded rod overlap, but like all steel products, flat rolled, plate, bar, alloy with its higher costs is used when customers need more strength. Alloy can be usually substituted for carbon, and imported alloy is so cheap that it is in fact a substitute for domestic carbon rod.

Within our first year in business, after SDI acquired Vulcan, we were disappointed with our volume and decided we could increase our volumes and get more pricing power. We purchased the equipment and much of the business of Acme All-America Threaded Products at their largest plant in Indianapolis, Indiana. After this purchase, we planned on installing this equipment to increase product. Instead, we've only been able to increase production on our existing equipment, but we have not been able to use the newly-purchased equipment.

Based on our market information and available Customs entry data information from subscription services, we know that virtually every U.S. producer besides Vulcan is a major importer of threaded rod. We cannot hold this against them because the subject imports are available at less than domestic producers' cost of production. Vulcan does not import carbon and alloy threaded rod.

The primary channel of distribution for threaded rod is through nationwide large distributors of the range of construction products. These companies are large, international and have strong purchasing power. They do and will negotiate directly with their suppliers. Let me give you an indication of the positive effect of these cases. Our one nationwide distributor had previously only bought from us when the boat was late.

Recently, this distributor visited our plant to discuss a nationwide supply agreement with us. It is not final and I'm sure they are awaiting your vote to see if they can keep importing unfairly traded imports or need a large domestic supplier. Then there are smaller regional supply houses located in various parts of the country. The big box hardware stores are smaller parts of this supply chain.

This is because threaded rod is not commonly used in do-it-yourself projects. Instead, it is used for industrial building, high rises, hospitals and various commercial construction applications. Our raw materials are far and away the largest share of our costs. As a processor, we don't get to just pass along our raw material costs. Prices for threaded rod are set by supply and demand for the finished product. In 2018, our costs went up dramatically. We attempted to raise our own prices to cover these costs, but these efforts failed because subject imports were available at such large quantities at much lower prices.

As to our raw material purchases, while SDI produces bar, we purchase all of our steel raw materials on an arms length basis from whichever domestic supplier has the lowest delivered price to our plant. In fact, the vast majority of our steel purchases come from suppliers other than SDI because they have freight advantages.

Vulcan is a stand-alone profit and loss center. Fortunately for us but not for SDI, steel prices fell significantly in 2019. This helped our profit margins compared to 2018, but as you can see they are nowhere near 2016 or 2017 levels. We also had poor volume, as imports continued to flood into the market and we believe we lost further market share.

Vulcan's previous cases covered only carbon-threaded rod. When SDI began to focus on the import problems in the threaded rod market, we brought a fresh look and new counsel to analyze this issue. Let me briefly explain why we believe carbon and alloy threaded rod are one like product. First, we make carbon and alloy in the same plant in Birmingham. Second, we use the same or similar machines to produce both alloy and carbon-threaded rod with the same processes.

Third, the uses are similar along a continuum with the alloy, as in all steel products being used in applications that are more critical. Fourth, the same suppliers sell us carbon and alloy raw materials. Fifth, almost half of our customers buy both carbon and alloy rod from us. Finally, while our prices for alloy are higher than our prices for carbon, subject import prices for alloy threaded rod are often similar to our carbon prices.

Vulcan is a great company located in the Southeast, and it has access to the southwest as well. These regions have outpaced the overall U.S. market in terms of construction growth. SDI brought to Vulcan a renewed emphasis on productivity. SDI has a compensation system based on team output. I can tell you that our associates at Vulcan make significantly more than they did before.

We also share eight percent of our corporate profits with our associates as bonuses. SDI wants to make significant investments in addition to the 2016 and 2017 investments in Vulcan business. However, that requires a return on investment compared to other investments SDI could make. That return is simply not there, as long as aggressively priced imports continue to distort the market.

Without a doubt, we are sure the imports of carbon and alloy-threaded rod have a higher share of the domestic market than any other steel product SDI produces.

SDI has never been afraid of competing on a level playing field. On behalf of all of our associates at Vulcan, I would like to make -- I would like you to make an affirmative determination. Thank you.

MR. SCHAGRIN: Thank you, Dennis. Our next witness is Alan Logan, the Customer Service Manger of Vulcan. Alan.

STATEMENT OF ALAN LOGAN

MR. LOGAN: Good morning, Chairman Johanson, and members of the Commission. For the record, my name is Alan Logan, and I'm the Customer Service Manager at Vulcan. I've been with Vulcan for 33 years and I was involved in the other two cases that Vulcan brought on threaded rod in 2009 and 2013.

As the Commission is aware, the China dumping case on carbon rod was successful. However, after the successful China case, we had to attack instances in which alloys were added to the carbon product to circumvent the duties. We did one circumvention petition on borax but we haven't had the time or money to chase every one of the dozen alloy elements that can be added to the carbon steel to avoid the anti-dumping duties.

In the meantime, imports of alloy steel threaded rod from China have more than quadrupled since the Order was imposed on carbon steel threaded rod. Unfortunately, we were unsuccessful on our case in 2013 against Thailand and India at the Commission. As can be seen from our petition, imports of carbon threaded rod from these two countries peaked at 46.5 million pounds in 2013 when we filed our petitions. They have only grown since that case has ended, reaching 65.4 million pounds in 2018. In just the first half of 2019, they were 45 million pounds.

Our parent company, SDI, strongly supports President Trump's Section 232 duties to remedy the damage to the steel industry and help address world steel overcapacity that threatens our national security. Unfortunately, as a very small segment of SID, our threaded rod products fall outside of Section 232. This has made import competition even worse. In fact, the import situation for carbon and alloy threaded rod is the worse I have seen in my career.

Obviously, we believe the record bears out that unfairly traded imports from China, India, Taiwan, and Thailand are injuring the domestic industry. Because of import pressures our previous owners, who were also the company's founders were unable to invest heavily in the business. Our entire workforce was happy to see the company acquired by SDI, which has a good reputation for operational excellence in the steel industry.

Our positive views were reinforced by SDI's willingness to make another purchase within a year of the acquisition of Vulcan to acquire the major threaded rod assets of Acme All America treaded rod. Unfortunately, while we did pick up a good chunk of All America's business, our plans to operate their equipment at a second Vulcan location has not come to fruition. Instead, we use more of our own equipment and, as simply put, their equipment into storage at our facility.

Even more troubling about the timing of the import surge is that during a period when construction and demand for our products was really strengthening between 2016 and 2018, our industry didn't see the benefit. The growth and demand all went to imports. Now, construction has weakened, leaving us in a very vulnerable position. Unlike 2013, where the negative vote came before a big increase in demand, a negative vote now would mean lights out for our threaded rod division.

Dennis has spoken about the channels of distribution for threaded rod where we compete head-to-head with imports. Threaded rod is a commodity product with common specifications for both domestic product and subject imports. This means business is done on the basis of price. Subject imports have been significantly lower than Vulcan's prices, which explain how they were able to seize such a high share of the market.

This aggressive price undercutting has directly harmed our company, as can be seen in the numerous lost sales and lost revenue allegations contained in the petition and in our questionnaire responses. We know that our profit margins are abysmal. As Dennis stated, our small Vulcan Company is at a crossroads. Without import relief, it is likely that the threaded rod part of our business will have to be shut down and we will only be able to continue in the bar business.

With relief, we can grow by investing in underutilized assets, expand our geographic reach, and increase our employment. On behalf of everyone at Vulcan, we hope the Commission allows us to pursue this second path. Thank you.

MR. SCHAGRIN: Thank you, Alan. And we're pleased that in addition to the Petitioner, Vulcan, and all of their executives, to be joined by the presidents of two of the other U.S. producers who have come in today to argue for relief for their companies.

The first of those two presidents is Wally Gross, the President of Bay Standard Manufacturing. Thank you for coming in from San Francisco, Wally.

STATEMENT OF WALTER GROSS

MR. GROSS: Good morning, Chairman Johanson, and members of the Commission. For the record, my name is Wally Gross. I am the President of Bay Standard Manufacturing, Inc. Our manufacturing facility is in Brentwood, California, located in the East Bay area of San Francisco. In addition to our manufacturing plant, we have six distribution facilities in the Western United States.

Bay Standard is a family-owned company celebrating its 60th year of business. We have been engaged in producing threaded rod for the past 50 years. We currently have 150 employees. I have been at Bay Standard seven years now, but have over 30 years in the fastener industry. I'm here today because we strongly support these cases. We produce both Carbon and Alloy Steel Threaded Rod. We are the largest producer in the Western United States. We're able to source raw material, round bar and coil, from several sources, including NuCor's, Arizona and Utah plants, Cascade's Oregon plant, and Gerdau Ameristeel's Texas and Minnesota plants.

Recognizing a substantial all thread market that we could not compete in with our domestic product due to imports being less than our manufacturing costs, we started importing both carbon and alloy threaded rod into 2015. In 2018, imported rod made up 10 percent of our sales, but since the duties were imposed in these cases, we strongly support. We have, for the most part, stopped importing and will instead manufacture these threaded rod products in California.

How could we still manufacture anything in the face of this low-priced import competition? The potential for catastrophic earthquakes along the Pacific Coast has played to our advantage. Building codes have changed to include engineered seismic tie-down systems whose main component is all thread rod. Essentially, all thread is used from the anchor bolt to the top of the structure, giving the building support in the event of an earthquake.

Last minute job site changes in specific material and handling requirements have helped us compete with imports, but before these cases were filed imports of threaded rod from China and Taiwan in grades used in this application were coming in and threatening our ability to compete. For the bulk of the West Coast market, Bay Standard simply could not manufacture carbon and alloy threaded rod and sell to distributors against imports. We used imports to fight other importers.

That is come at a cost to Bay Standard. In 2018, we had to eliminate an entire threading line used to roll smaller diameters because we could not compete against these imports. To be able to sell our manufactured threaded rod, importers have forced us to become a manufacturer that has to offer value-added services, such as specialized handling, labeling, and assembly. This had negative effects on the company with increased overhead and reduced margins.

As I told your staff at the staff conference in March of this year, the ownership of Bay Standard was willing and able to make significant investments to increase our production capacity to meet the West Coast demand taken by these unfairly traded imports. I am pleased to share with you that when and if the duties become permanent Bay Standard will begin to procure the necessary machinery to significantly increase our production. The plan moving forward would be to double our manufacturing capacity in 12 to 18 months. With that, we would expect to double our production workforce and increase employment at our distribution facilities.

For these reasons, we wholeheartedly support these cases and ask you to make affirmative injury determinations. Thank you.

MR. SCHAGRIN: Thank you, Wally. And we're also pleased to be joined by Paul Diorio, the President of Dan-Loc Group, from Houston, Texas. Paul.

STATEMENT OF PAUL DIORIO

MR. DIORIO: Good morning, Commissioner Johanson and members of the Commission. For the record, my name is Paul Diorio. I am the President of Dan-Loc Group, LLC.

Dan-Loc has the capacity and the capability to produce threaded rod and all-thread studs at our manufacturing facility in Houston. In addition to our manufacturing plant, we have distribution facilities in Houston, Ohio and Louisiana.

Dan-Loc Bolt & Gasket was created in 1961 and it was a premier U.S. producer of all-thread rod and studs for many years. In 2015, Tex Thread acquired Dan-Loc Bolt & Gasket. The combined company is called the Dan-Loc Group. I joined Tex Thread in 2007. After Tex Thread acquired Dan-Loc Bolt & Gasket, we believed the combined entities had a number of advantages and the two companies would complement each other. Dan-Loc Bolt & Gasket used domestically-produced steel to manufacture threaded rod, and Tex Thread was primarily an importer and processor of threaded rod.

Unfortunately, the rapid increase in imports since that time have prevented us from reaping the rewards we anticipated from this investment. As the Commission is aware, threaded rod is a commodity product made to standard specifications. Purchasers and end users are constantly looking for the lowest price. We sell mostly through the oil and gas sector and our customers include OEMs, distributors and engineering procurement and construction EPC companies.

Regardless of the segment or channel we are selling into, competition all comes down to price for this highly fungible product. Imports that entered at much lower prices kept us from fully participating in the market uptick as consumption increased from 2016 to 2018. In order to compete, we ourselves were forced to increasingly rely on imports to serve this price-sensitive market.

As a result, our capacity utilization rate at our Houston facility was extremely low. Even though there was plenty of domestic steel available to us to make into threaded rod, and the overall market demand was strong, and despite the fact that we had just acquired this facility in 2015 to take advantage of domestic manufacturing assets, we were operating at just 10 to 15% of our capacity due to low import prices.

We were forced to close our distribution center in Gardena, California in December of 2016 and yet another distribution center in Virginia Beach in May of 2017. Hurricane Harvey hit Houston in August of 2017, causing extreme property damage to our facility. On the heels of the storm, a furnace fire completely destroyed our heat-treating furnace. We made the difficult decision to just remove the damaged equipment instead of trying to replace it. We simply could not justify replacing our heat-treatment line, given our low-capacity utilization rate in the face of continued competition from rising volumes of aggressively-priced imports.

We still produce threaded rod, but our capacity shrank after we lost our heat-treatment furnace. Fortunately, if these cases are successful, we are planning to expand capacity significantly. We currently operate eleven roll-threaders in Houston. Dan-Loc has purchased four more in the past two weeks and is in the process of buying three to six additional thread-rolling machines in anticipation of CVD and AD orders being imposed on imports from China, India, Taiwan and Thailand.

We will be buying domestic steel and are ready to cut it and roll it to have it ready for the market. In May of this year, we had to lay off thirty people. If these cases succeed, we will be hiring new workers by this coming spring, at the latest.

I am excited for the opportunity for Dan-Loc to once again be a cost-competitive and profitable U.S. manufacturer of threaded rod and all-thread studs. Our company has endured unfair import competition that has grown steadily each year, causing severe harm to our workforce, company and our industry. With relief in place, the plans we embarked on in 2015 will finally be given a chance to succeed. I look forward to any questions you may have. Thank you.

MR. SCHAGRIN: Chairman Johanson and members of the Commission, you've now in addition to your really excellent pre-hearing staff report, you've heard directly from members of this industry as to how this industry has been battered by imports. That completes our direct testimony. We'd be happy to answer the Commission's questions.

CHAIRMAN JOHANSON: I'd like to thank you all for appearing here today. And it's kind of fun to learn about this interesting product. My office overlooks this building being put up next door and I've seen a lot of construction going on. I assume that new building has probably thousands of steel-threaded rod products in it. So when I was preparing for this hearing, I could actually visualize what this product is used for, which kind of helped out a bit.

I'm going to begin Commissioner questions today. The staff report at 2-8 notes that two purchasers indicated that Vulcan was unable to supply them with domestic product. Can you please comment on this?

MS. DRAKE: This is Elizabeth Drake of Schagrin Associates. Because the identity of the purchasers is confidential, obviously we could not share that information with Vulcan. But I think overall, if the Commission looks at the very low level of capacity utilization in this industry and the fact that Vulcan has not been able to put into operation the assets that it bought in 2017, clearly any individual examples where a particular product might not have been available at a particular time, doesn't indicate any real shortness of supply in the market. This is an industry that has massive available capacity to supply the market, but simply has been unable to due to the prices that are being demanded.

MR. SCHAGRIN: Chairman Johanson, in general, these companies make products for inventory in standard sizes, but it's always possible that a customer who may have been waiting for import and a boat's gonna be late, says to a U.S. producer, "I need this tomorrow," and the U.S. producer might say, "I don't have it in stock right now, but I'll have it next week," and we think that can happen in any industry. But in general, over this entire period of investigation, none of the members of the domestic industry had any problems supplying the U.S. marketplace.

CHAIRMAN JOHANSON: Do you all know if any producers have declined to supply purchasers during the period of investigation?

MR. JENKINS: Not to my knowledge. Without knowing the details, but I mean, we supply all the common items that most customers would want.

CHAIRMAN JOHANSON: Okay.

MR. GROSS: All I can say, from our standpoint, is we've never turned down an inquiry to produce all-thread rod, ever.

CHAIRMAN JOHANSON: Okay, thanks for your responses. I appreciate it. You all raised the issue of raw material costs, and an important issue in this investigation, of course, concerns the increase in raw material costs during the period of investigation. Could you all please describe your experience with raw material costs over the period of investigation? And to what do you attribute the rise in these costs?

MR. BLACK: Obviously, some of the cost increase was just supply from steel mills and that's just the normal supply and demand. I think 232 could've had some influence. I don't know if I'm the expert on the amount, but I mean, that would've been mostly in 2018. I think in recent times, the pricing has declined, but obviously, most of my raw materials, I buy on the open market.

MR. GROSS: Certainly, Section 232 had an upward price pressure on pricing from the steel mills, there's no two ways about it. The plight was to be able to pass that on to our customers, and we found it very difficult, especially with the threat of low-priced imports. Unless we were servicing a very specialized product, which what we really focus our sales on.

The issue I have, and I'm in support of the

Section 232, is the all-thread rod market is such of a strong downstream product line to support that litigation and affirmative determination on your part would essentially support Section 232.

MR. SCHAGRIN: The only thing I would point out, Chairman Johanson, as well as the 232 duties, which as you know, from the staff report, does not cover the products subject to this investigation. Threaded rod is not covered by 232, but rod and bar are, and then in addition to that, during your period of investigation, the Commission made affirmative determinations on wire rod from ten countries, which is the predominant input here, so in addition, all the foreign producers of rod have a double incentive to move their product down into threaded rod to the U.S.

It allows them to avoid the dumping orders on wire rod and allows them to avoid the 232 duties on rod and bar. So this downstream industry has really borne the brunt of a lot of pressure on their raw materials and they're very much in need of relief from unfair trade on their finished product.

CHAIRMAN JOHANSON: Mr. Schagrin, could you comment a bit further of the 232s? Are you contending what is happening, as opposed to sending in a product covered by the 232, they reformulate their manufacturing? Or are they focused on this sector? Is that what you're describing?

MR. SCHAGRIN: Yes, that's exactly what's happening, Chairman Johanson. Whether it's within the same facility or it's a producer of the threaded rod in China, India, Taiwan, Thailand, that has been getting rod in their own markets at below market prices because those producers would face the 25% tariff if they sent the rod to the United States.

CHAIRMAN JOHANSON: Thanks. And, if possible, I'd like to hear from the industry witnesses regarding how raw material cost increases were managed during the period of investigation and how they impacted your bottom line.

MR. BLACK: As far as how we were managed, obviously, we tried to pass along as much increases to cover, you know, costs and everything else, but definitely we could not cover all the increases, so, I mean, for the most part, you know, you can look at the '17 and '18, and the margins and earnings were impacted, because not everything could be recouped --

Because, even as an American supplier, I would say that, you know, if someone could buy from us, they'd normally prefer it over import, but when the price gets too different, 10, 15%, I can't speak for the customers. They did move to imports. So we have to stay within a certain range or we'll start seeing floods of customers leaving us. So, I can say we just trial-and-error at times. I mean if you start seeing people leave, you have to readjust pricing, so we were not able to recoup most of it, to be very honest.

MR. GRAHAM: Chris Graham, Vulcan Steel Dynamics. One part of managing the raw materials costs are that the Vulcan team are allowed to go buy steel from whomever they can procure it from at a competitive rate, meaning they may buy it from Steel Dynamics' competitors domestically.

They pressured--they, being Dennis and his team, Vulcan--talked to their, in-house, their in-company steel supply, and said, "Look, we need to get steel at these rates, and we need to get it down to these prices," and even though that steel mill wasn't running full, they weren't able to get down to the numbers that Dennis needed to.

We would expect that our plants always take an aggressive position short of protection to maintain low costs. I think we've exhausted a lot of that, and the fact that one of our mills literally couldn't afford to produce it at what Dennis' team would need to even pay the light bills, break-even, says something.

MS. DRAKE: Chairman Johanson, Elizabeth Drake, just briefly, I think the Commission is aware of other industries which try to manage increases in raw material costs through certain pass-through or indices that are in their contracts with their customers, but that's not typical of this industry at all, the vast majority of the sales are on a spot basis and transaction-by-transaction, so there's none of those mechanisms available that automatically adjust the finished product price for fluctuations in raw material prices, which cause for the squeeze that Mr. Black was describing.

MR. GROSS: We do sell certain fixed-price contract on very short-term contracts, usually extended six months, with the volatility of the steel industry. But we've had to change our position with some of our high-volume customers and retract our typical contracts with them to review every thirty days. And by the nature of my customers and when they're quoting jobs that might not start for six months, profit margins suffered at every stage of the game, but it was just a matter of working through it and just staying on top of it and trying to keep your pulse to the market.

CHAIRMAN JOHANSON: All right, thanks for your responses. The red light's on, so we'll now turn to Commissioner Kearns.

COMMISSIONER KEARNS: Great. I wanna also thank you all for being here today. We appreciate your testimony. A few questions about pricing here. The pricing product coverage for China is much lower than coverage for other sources. Given that China's the largest import source, why is the coverage is so slow, and how should that affect our analysis?

MR. SCHAGRIN: Commissioner Kearns, this is probably for counsel, because so much information is confidential, but we actually think that, in spite of best efforts of your staff, the problem is just the lack of responsiveness by importers, as well as the Chinese producers.

So we actually think that there's a lot of imports from China. Of course, there would be more in the alloy products than the carbon, because the carbon was already covered by dumping orders. So you also have a little bit of a restriction in the quantity of the pricing products that would be covered by importers because presumably they haven't been bringing in much of the carbon product already covered by dumping orders. So you'd have more information on Chinese product pricing in the alloyed pricing products.

COMMISSIONER KEARNS: Okay, thank you. And since you mentioned that, I'm curious. You know, our pricing--our products are distinguished between alloy and carbon, as you mentioned, but given the overlap in competition, would you--is there anything you want to say about that, the couple of products we have here that are alloys? Do those products still compete against the other products we're looking at here for pricing?

MR. SCHAGRIN: Yes, and I think you heard it in the testimony, that when the Chinese had the dumping order go into effect on carbon, they do what they've done in other products. And I believe that you were just starting at the time we did the plate cases, which was almost identical to this, where we had an order on carbon plate from China since 1997, and then the cases from 2017 covered carbon and alloy from China and 11 other countries. And what the Chinese have done in threaded rod, as they did in plate, is they do two things. One, they call everything alloy in order not to pay the duties, but when Customs checks things--and they just don't have enough staff to check them--a lot of times the claimed alloying agents aren't even real. They're just put down on the entry documents so that it can enter the alloy tariff category and not pay the dumping duty on carbon.

And then you can chase your tail forever with the Chinese trying to figure out, you know, how much is really carbon being claimed as alloy and being sold in the channels for carbon, and how much is really alloy.

But the second thing they do--they've done certainly in threaded rod; you've heard it from the witnesses--is, for these gentlemen there's a significant difference in cost in the raw materials between alloy and carbon. But the Chinese have been selling. And you saw how massive the imports of alloy from China have been. They've been selling alloy at the equivalent of domestic carbon prices. And anybody like the building Chairman Johanson, if this contractor can, in these kinds of buildings you would use carbon product, but if he can buy alloy at the same price as carbon, he's always buy alloy. It's just like, you know, wouldn't you like the Bentley at the Cadillac price? Yeah, if you're going to sell it to me. And that's what the Chinese have been doing. And that explains the massive increase in imports from China.

COMMISSIONER KEARNS: Thanks. And this is a bit of a tangent, maybe, but on domestic like product, I mean you all have mentioned that there's no clear dividing line between alloy and carbon. So then why didn't you--the case earlier on China, why was that only on carbon?

MR. SCHAGRIN: Mr. Logan may care to comment, but like other steel products, there have been changes. That case goes back a little over a decade, and there have been changes in the continuum of steel products in the steel mills between low carbon, medium carbon, and alloy. And I think the same thing happened in threaded rod, as I saw in plate, where there were just changes between 1996 and 2017 in the steel mills and in the marketplace.

Mr. Logan, would you like to add something?

MR. LOGAN: One reason was because the material coming in, or alloy material coming in, was not as significant back 10 or 12 years ago. We found out very quickly after we won that case that it was going to be very significant in the future.

COMMISSIONER KEARNS: I'm sorry? You're saying that the imports weren't significant?

MR. LOGAN: On the alloy side, from our standpoint.

COMMISSIONER KEARNS: Okay.

MR. LOGAN: Also, we've just seen a--from just the marketplace itself and what the market is demanding, a crossing of we're doing more medium carbon type of products that are quench and tempered, and they're appalled--yesterday, Mr. Diorio said that pricing for alloy product is so cheap that if somebody calls and wants a carbon-type product, that he can easily substitute the alloy for it. The market will obviously accept the higher-strength product if they can get it at the carbon price.

COMMISSIONER KEARNS: Okay, thank you.

Getting back to price here a little bit, and I wanted to turn to average unit value. There's a pretty large difference in the AUVs for the subject countries. Do you have any idea why the AUVs for Taiwan are substantially higher than the other AUVs? And why China's AUVs are higher than those for Taiwan and Thailand?

MR. SCHAGRIN: I think a lot of it is confidential, but in general it has to do with the mix between carbon and alloy. I mean, even for these countries there is generally higher prices for alloy than for carbon. So depending on which of the subject countries, what their product mix is, like you would expect China having the duties on carbon and not on alloy, that would explain their higher average unit value.

But when we get into the pricing products and get, you know, same-for-same, then you can see that the pricing for the various imports are similar. And you have very, very overwhelming evidence of underselling of the domestic industry.

COMMISSIONER KEARNS: Okay, does that undercut your argument before that China is selling alloy at such a low price that you're having to face that competition in carbon?

MR. SCHAGRIN: It doesn't undercut it, Commissioner Kearns, but, you know, certainly in general, even for the Chinese, alloy will be higher than carbon. But so it's not every single import, not every pound of alloy from China is priced at a carbon price, and we see even in the dumping duties a range of dumping duties for Chinese companies. But as members of the industry have said, they have witnesses alloy prices from China at the same level as domestic carbon prices. But it wouldn't apply to every pound imported from China.

COMMISSIONER KEARNS: Okay. Continuing on with pricing, can you explain why for pricing product for domestic prices increased while subject import prices were falling?

MR. SCHAGRIN: Just because that information is confidential, can we do that in our posthearing brief, Commissioner Kearns?

COMMISSIONER KEARNS: Sure.

MR. SCHAGRIN: Thanks.

COMMISSIONER KEARNS: And you may have the same answer for this, but how do you explain the predominance of overselling for pricing product three?

MR. SCHAGRIN: I think the same thing. We will do it in the posthearing. Because, unless I'm incorrect, because I have the public staff report which I read, I think all the information on the pricing products is confidential.

COMMISSIONER KEARNS: Okay, thanks. And I'd like to better understand how prices are set in the market. I guess I'll start with, do any of you sell by contract? And if so, to what extent do your contracts take raw material costs into account in setting prices?

MR. BLACK: It's Dennis Black. As far as contracts, we normally don't have many contracts to speak of on the threaded rod products. We may have some pricing for larger customers that may last a quarter, at max. And that's only for a few select larger customers. But for the most part, none of those mechanisms for scrap or steel pricing are included. It's really just a market price. And a lot of times, over the last couple of years, it's trying to compete with imports where that falls. But there's no mechanism, no contracts to speak of for threaded.

COMMISSIONER KEARNS: Okay.

MR. GRAHAM: Chris Graham, Steel Dynamics. I would say that customers in certain markets are going to resist contract pricing when they know that the supply chain is wildly unstable, changing, dropping. That they would be slow to enter into any kind of a long-term agreement that would keep them from capitalizing on the next move an importer might make.

COMMISSIONER KEARNS: Any of the other producers?

MR. DIORIO: Paul Diorio. Most of our stuff is spot buys. So we get relatively instantaneous feedback on pricing. If our win rate on our quoting begins to drop, we'll lower our prices the next time to that same customer until we find the bottom. And again, it's driven by low-cost imports. That's what we're driving down to.

COMMISSIONER KEARNS: Mr. Gross?

MR. GROSS: Wally Gross, Bay Standard

Manufacturing. Steel price obviously makes up such a high percentage of our finished product because it's the predominant factor. As I mentioned earlier, by nature of our business we sell, our high-volume customers are very specific in the wood-to-wood construction. Quoting on projects, that again could pull six months to a year out. So we constantly stay in communications with our customers, depending on what happens in the market, in trying to lock in pricing for them so they can successfully make money down the road, which has a negative impact on my carrying-cost of inventory.

Because many times they'll commit to me, I will procure the raw material to produce and hold it for them for a number of months. So since that time period, my inventory clearing costs have gone up significantly to support that type of business, okay?

I do also have customers that will buy material from me, and I will sit on the raw material and produce it at a later time on certain scenarios like that. But for the most part, with pricing going up, we restrict what we're willing to do with our customers and review pricing every 30 days.

COMMISSIONER KEARNS: Okay, so if I heard you right, then you do have contracts with some of your customers, right?

MR. GROSS: Wally Gross, Bay Standard, yes, we do have fixed pricing with three of our large seismic customers that engineer these seismic systems for construction.

COMMISSIONER KEARNS: Okay. And if I understood what you said, too, then raw material costs do play into your discussions with them, and your contracts? Or no?

MR. GROSS: Wally Gross, Bay Standard. Yes, they are a significant discussion in our--I price setting.

COMMISSIONER KEARNS: Okay, and is it actually part of the contract, or not?

MR. GROSS: We are not that sophisticated.

COMMISSIONER KEARNS: Okay.

MR. GROSS: Because it's very hard to base pricing on things like scrap values. So it's really just about reviewing current steel market pricing and updating pricing as we go along. It's not really tied to any other factor besides that.

COMMISSIONER KEARNS: Okay, and how long are the contracts that you have with those three?

MR. GROSS: Well, again, I'll extend--like in this current market where it's soft, I typically, at this stage, am offering 90-day price reviews.

COMMISSIONER KEARNS: Okay--

MR. GROSS: Okay, and if things get very volatile, we'll go to more like a 30-day review that could work in their favor or my favor. It works both ways.

COMMISSIONER KEARNS: Okay, that's helpful. Thank you, very much.

CHAIRMAN JOHANSON: Commissioner Stayin?

COMMISSIONER STAYIN: Thank you. I would like to start with the issue of capacity. Do we have in the United States the capacity to provide the threaded rod that is required by our industry, construction and all the other uses?

I address this to Mr. Gross. Do you think that we have enough capacity in the U.S. market to meet the demand? Or do we need to also bring in imports in order to meet that demand?

MR. GROSS: Wally Gross, Bay Standard Manufacturing. All thread rod is a very simple product to produce, and this is one of the reasons why I think we've faced such opposition from offshore. When I say we're willing and able to double our production in the next 12 to 18 months, it's that the time period is simply to get the equipment, get it installed, hire the employees and increase our capacities.

As long as there's demand there, that will not stop. We will continue to add capacity to meet demand, and I'm sure our friends at Vulcan have the same mind set. With orders we can chase it, but if we have no chance, we have to sit and wait for some protection.

MR. BLACK: Dennis Black from Vulcan Threaded Products. As far as capacity, especially on the low carbon side, we acquired the assets of All-America Threaded Products of Indianapolis. Those assets are in a warehouse in storage. So obviously we've been trying to figure out what to do with those, and based on market conditions we have not been able to deploy those assets in what we think is a meaningful payback.

We've looked at different scenarios, obviously depending on the outcome of these cases and of that sorts. I think on the alloy side, you know, we were -- we're a relatively small player, even though we're probably the biggest in the U.S. We look at a lot of our customers and a lot of people in Houston, I don't want to speak for Paul, that used to manufacture a lot more and don't now. So I think there's a lot of people in the last decade that used to, and due to pricing from China just can't. And so Paul can speak to that better than I can on the alloy side.

But I think on low carbon, I think what Wally can do, what I can do at the existing facility plus redeploy assets that I have in a warehouse, I don't see an issue. I think the alloy side needs more people like Paul to crank back up, where he idled that. He moved from being a manufacturer to an importer, and hence why we're sitting here.

MR. GRAHAM: Chris Graham, Steel Dynamics. We would contend that the incredibly high rate of imports come from, you know, we're being represented by the bulk of the threaded rod manufacturing base in the United States. It used to be bigger. The fact that imports are controlling so much, we would probably argue that no, we cannot because there's only a couple of us left.

But that we, that these are good jobs, these are good manufacturing positions. Vulcan in Alabama, the one plant that employs over 250 folks, and we think that there's room to rebuild an even better industry given a better playing field. But I would argue unless someone takes exception that the import tactics have put us into a position where no, today we could not supply everything. Is that a fair statement Dennis?

MR. BLACK: Dennis Black. Yes, it is. Without changes, I agree with that.

MR. SCHAGRIN: Commissioner Stayin, this is Roger Schagrin. I've been told just because some of these industry members have been in this industry for over 30 years, that just as recently as 15 or 20 years ago there were about 30 U.S. producers.

So it's not that those producers couldn't supply the U.S. market. It's that imports have essentially destroyed more than two-thirds of the U.S. industry over the past couple of decades. So as they say in Field of Dreams, if the Commission creates fair trade, the industry, because we're based on market conditions here, will respond by expanding capacity.

I think it's great. I haven't had many cases in the past in which all three U.S. producers here have said when we get relief, we already have plans in place. I think Mr. Diorio already said they just in the past couple of weeks have placed orders for new equipment. He said hey, when that equipment arrives by next spring, are these duties going to be in place?

I say I'm just a trade lawyer, you know. Tell your story to the Commissioners. They vote, not me. I wouldn't make investment decisions based on Roger Schagrin's advice because it's not my business. But the way the laws work, these imports are unfairly traded. They have surged massively, I mean almost a 50 percent increase over just the first three years of the POI while the market was growing, and now this industry wasn't able to take advantage of that market growth, and now without doubt it's going to decline.

Probably 40 to 50 percent of demand in this industry comes from energy. Chairman Johanson, and you know, the rate count's been down for what, 12 to 15 months. So the energy side of demand is already declining and construction has flattened and is declining slightly. So they missed the uptick, but if they're able to replace imports, all these companies are going to invest, have more capacity, make more product, employ more Americans to supply the market so that we're not dependent on unfairly traded imports for constructing buildings or producing energy.

MR. LOGAN: I'd like to add one other thing. I know personally of three additional companies that, depending on the outcome of this case, are planning pretty significant investments in this industry.

So it's not just those that are sitting here, that are represented here, but there are other industry players that would like to step up and supply domestic product into the construction and oil and gas business, but have been unable to do so up to this point.

COMMISSIONER STAYIN: Anybody else. Okay the -- yes sir.

MR. DIORIO: Paul Diorio, Dan-Loc Group.

COMMISSIONER STAYIN: Yep.

MR. DIORIO: In the beginning of 2000 -- as I mentioned in my testimony, at the beginning of 2016 we were only operating at 10 to 15 percent of our capacity. We are anticipating that CVD/AD orders will be issued, and in anticipation of that as I mentioned, we've already bought some new thread rollers, and we're in the process of acquiring additional ones.

We've started our retraining program on threading, so that our employees can take an influx of new folks coming in, and we -- we anticipate that we will be able to supply a significant amount of the requirements for the oil and gas industries, and that's particularly our area of expertise. So we anticipate that we will, and we look forward to the orders being issued.

COMMISSIONER STAYIN: Thank you. Anybody else? Okay, I appreciate your comments, and of course it is very important to be prepared should these rates go into place. So I am encouraged that you have in place a position to increase your capacity. I assume was that the purpose of your -- it was before the case was filed. But when you purchased Acme, the products from Acme, was the intention then to expand your production?

MR. BLACK: Yes it was, and obviously we bought that in August of 2017, and that was before a lot of the pricing increases of '18, and we really had nowhere to go at that point. So again, we kept those assets. We own them. They're in a warehouse in storage.

COMMISSIONER STAYIN: Okay, thank you. The staff has determined that the industry is inelastic from the standpoint of price. Yet one of you have said to us today that it's a price sensitive market right now, and it's difficult for you to compete in it. Can you explain to me the difference between what's happening and what has been determined by staff about an inelastic market?

MS. DRAKE: Commissioner Stayin, this is Elizabeth Drake of Schagrin Associates. I believe -- I believe both facts are correct and can be at the same time. So the staff's finding about inelasticity is the overall elasticity of demand to price.

So if overall prices for steel threaded rod in the U.S. market go up, that's not going to significantly overall demand for steel threaded rod because demand is inelastic in the sense that construction companies, oil and gas companies that need steel threaded rod, that there's no substitute for it and that it's a low share of their total cost, are going to continue to buy it in the same volumes.

If overall market prices go up by ten percent, 20 percent, that's not going to reduce overall demand. But at the same time, competition within the market from different suppliers of steel-threaded rod is very price sensitive. And so when Vulcan is competing against an importer, if that importer's prices are a bit lower than Vulcan's because it's a commodity product, that sale will be lost if Vulcan isn't able to meet the price. So it's the difference between the overall dynamics between demand and overall prices versus competition between different suppliers of a commodity product based on price.

COMMISSIONER STAYIN: Thank you. My time is up.

CHAIRMAN JOHANSON: Commissioner Karpel.

COMMISSIONER KARPEL: Thanks for all of you being here. I wanted to start a little bit with trying to understand the scope of this investigation as compared to the prior investigation. How -- there appears to be some overlap in scope of the two investigations. Can you talk about that, and in particular the overlap appears to be carbon products from China, and can you talk about your decision to include them in this new investigation when they're already covered or appear to be covered by an order?

MS. DRAKE: Thank you, Commissioner Karpel. Elizabeth Drake from Schagrin Associates. So the scope in general covers both carbon and alloy steel threaded rod from all four countries. The one exception is that the anti-dumping investigation on China does not cover carbon threaded rod that's already covered by the existing anti-dumping order on carbon-threaded rod from China.

So it's only the anti-dumping investigation on China this time around that's focused on the alloy only, because carbon's already covered by a dumping order. But the countervailing duty investigation on imports from China this time around does cover both carbon and alloy, because there's no countervailing duty order on imports from China. So that's why it's appropriate when the Commission is looking at cumulated imports, to include both carbon and alloy from each of the four subject countries, because carbon, even though it's excluded from the dumping China investigation is included in the countervailing duty investigation on China.

COMMISSIONER KARPEL: But am I reading this right; Commerce came up with margins for the Chinese producers on dumping?

MS. DRAKE: Correct, but that's just on alloy, so the scope, overall, is carbon and alloy. But the dumping investigation on China this time around only covers alloy because carbon is already covered by the existing Order, so those margins aren't imports of alloy threaded rod from China from the dumping investigation, but the countervailing duties margins on China cover both carbon and alloy from China.

MR. SCHAGRIN: Just for Commission precedence, looking at similar situations, that was the exact same situation the Commission had two years ago as to plate -- cut-to-length plate where there had been an existing anti-dumping duty Order on carbon plates, so the new dumping case covered only alloy, but the countervailing duty case covered both carbon and alloy. And then based on cross-cumulation between CVD and AD, the Commission simply cumulated all of the cut-to-length plate imports from China with all of the other countries because of the fact that the scope of the CVD case and the determination by Commerce that all of the carbon and alloy plate from China had been subsidized they were all cumulated and the same is true here where Commerce has determined that all of the carbon and alloy threaded rod from China is subsidized. So, you have all those imports that can be cumulated with the other cases because of the same scope in the CVD case as all of the AD cases and the CVD case from India. It's a little complicated, but as I say, we've done it once before just two years ago.

COMMISSIONER KARPEL: Thank you. I want to go back a little bit to some of the questions that we started out this morning on about availability of domestic product and some of the information in the staff report that speaks to that.

I know it was earlier a cite was given to page II-8 of the staff of the information there about lack of availability of supply from domestic sources, but there's also some information elsewhere in the staff report -- pages III-13, Table V-12. Some of that information is proprietary, so I don't want to talk about it here, but as you look to address this in your post-hearing brief could you be sure to address that in light of the information on the other pages I cited as well?

I take your point that some of this may be any given supplier doesn't have something in inventory at any given time. It seems like what's being discussed in the staff report is a little bit different than that scenario, so if you could elaborate on that I'd appreciate it.

MR. SCHAGRIN: Commissioner Karpel, we'll do so in our post-hearing brief because of the confidential nature.

I would say, in general -- and it goes to some of Commission Stayin's questions -- the low capacity utilization in this industry is just incredible. I mean this is an industry in which literally the entire industry, given the market share of the unfairly traded imports is on the cusp of going out of existence. Bay Standard is lucky that the seismic construction situation in California gave them a life preserver for some of their business for a short period of time, but this is an industry with unbelievable amounts of excess capacity. And the fact that, I think, like a lot of industries once the U.S. supply chain gets so accustomed to having so much cheap import available all the time you would ask some of those U.S. customers -- and of course, it's all confidential -- they just don't want to pay a fair market price for domestic material. They love the imports. Imports here take well over half the U.S. market.

These suppliers, who I'm sure make enormous amounts of profits as distributors reselling unfairly traded imports, they would much rather continue buying unfairly traded imports than buying domestic and only duties will force them to buy domestic. So, we'll address it confidentially in our brief, but this is an industry that is really characterized by extremely poor capacity utilization rates to the point where they're on the cusp of not even being able to utilize the capacity they have remaining.

COMMISSIONER KARPEL: Thank you. Can we back up a little bit and talk about the difference between carbon and alloy steel threat? You've talked about earlier how they are different, but if you can get alloy at the same price as carbon, then a purchaser would just as well purchase that. So, I want to unpack that a little bit, understand what is the difference between the two end uses production process, pricing, and if you can point me to anywhere in the record where it's talking about that particular fact you mentioned, that purchasers are buying alloy when they could use carbon because it's just as cheap.

MR. BLACK: I'll take at least the first part. This is Dennis Black from Vulcan Threaded Products. As far as the difference between carbon and alloy, I mean they're very similar products. If I laid two on your desk, you wouldn't be able to tell them apart. I would tell you that it's really probably has to do with the application, the criticality. Again, you might use them; especially, like Paul can talk about in oil and gas. You can use them for flange bolts, use them in refineries or pipelines, and things of high pressure where explosions, fire they're going to use the more expensive, heat-treated alloy product for the safety factor.

But if you had, let's say, water or air lines, they look the same. The flanges look very similar. They're going to use a low carbon bolt for that. So, sometimes it's just the criticality of the application, almost like anchor bolts. You know what'd you're holding up; is it a light post or a building. There's a difference there. So, a lot of times it's the criticality, the difference in the loads because obviously the alloy has higher load capacities, but on the surface you couldn't tell them apart if I laid them on your desk.

As far as some of the privileged stuff, I'll have to leave that to Roger.

COMMISSIONER KARPEL: In terms of production differences?

MR. BLACK: Excuse me, as far as production? At least in our plant, the low carbon -- again, there's a lot of differences -- diameter, length. You know there's a lot of differences. They're treaded. Production low carbon is much higher in our plant. I think as far as the markets the markets are not so dissimilar. It's just that you know by my best -- I don't have you know the -- look at the privileged information, but you know China is 85 percent of the alloy market, by my guess and that's only mine. You obviously have better facts than I do, but you know for us low carbon is much higher.

COMMISSIONER KARPEL: But what kind of additional equipment or processes do you need to do?

MR. BLACK: As far as alloy, it's a different raw material. It's normally -- obviously, it has alloy. It costs more. The machinery, what you do in the process is pretty similar, except normally in alloy there is a heat treatment process. So, normally, there's a heat treatment. In our facility it's before threading, but you can also do it after. But for us -- for me where I do the alloy and threaded they're right next to each other. The lines are right next to each other on the production floor.

COMMISSIONER KARPEL: Is the higher cost of alloy due mainly to the raw material cost being higher or the extra production step?

MR. BLACK: A little bit of both probably. I mean, obviously, the material is going to cost a certain percentage. There's obviously heat treatment costs a certain amount of money also, so I think both.

MR. GROSS: Being somewhat of a different company than Vulcan since we do not produce our raw material, our bars, in our plant low carbon and alloy bars are subjected to the same processes to produce -- same equipment. There's no difference between the two.

MR. GRAHAM: Chris Graham with Steel Dynamics.

COMMISSIONER KARPEL: I'm sorry; just one follow-up for Mr. Gross. So, it's just the raw material that's different in your production?

MR. GROSS: Yes, that's correct.

MR. GRAHAM: I think we're understating the effect of the alloy. The alloy is the expensive part of the recipe that allows it to perform at a higher level than just a vanilla, basic threaded rod, carbon rod. So, even if they are produced at the same rate on the same equipment and you can't tell them visually, the recipe required to make alloys -- to add alloys should be markedly more costly from a recipe standpoint, as the steel's being made in its rawer form, in its liquid form. We have steel mill that sell for, say, $800-a-ton steel. Alloy steels might sell for $2,000 a ton. Alloys are typically a high-cost item.

MR. SCHAGRIN: We can amplify this in our post-hearing, but one of the key factors for the traditional like product analysis that the Commission does, and it's unfortunate you didn't get questionnaire responses from the Tia and Chinese industries, but to the best of the industry's knowledge, all U.S. producers and all the subject foreign producers produce both carbon and alloy and they're producing them on the same machinery with the same employees.

They may have in the production process either an additional step or a longer time period of heat treatment for the alloy, but other than that additional time of heat treating alloy similar to plate with carbon and alloy that you have heat treatment of the alloy product that you do have that tremendous overlap, as well as the same with channels of distribution and in uses that continuum just goes along a continuum of criticality.

You just need -- whenever you get more safety involved and potential for more explosions in the oil and gas filed you're going to use the alloy product because it's stronger than the carbon product, but it does the same thing.

MR. GRAHAM: It's arguable that someone could look at the laws that are in place and add a little bit of alloy to be able to characterize it as an alloy product and they really didn't -- they're not going to sell it as the Cadillac. They're going to sell it as the carbon-based and try to get it called an alloy product to find a loophole.

CHAIRMAN JOHANSON: Mr. Schagrin, you just brought up the use of steel threaded rod in oil and gas application. Is this product limited to joint restraint systems or are their other uses in the oil and gas sector because I'm somewhat familiar with how it's used in the construction. You can easily visualize that. I just don't know about oil and gas.

MR. SCHAGRIN: I'll let Mr. Diorio take it, but I was shocked that, Chairman Johanson, like it's everywhere in the field. It's supporting the pipes. It's on the rigs. It's hooked up with all the flanges, but I'll let Mr. Diorio explain that.

MR. DIORIO: It's used in joint connections. So, if you have a flange and you have a bunch of holes in the flange, two flanges come together, each one of those holes is filled by an all-thread stud. It could be as small as a half-inch diameter two inches long up to four inches in diameter and 48-inches long. They're higher strength studs, so as the pressure in the line or the application as it tries to pull that joint apart the strength that's required in that stud is a lot higher than a standard carbon stud. Any time you see a blow-out preventer, a tree or a Christmas tree, an oil production upstream, any of the terminals where the pipes come out of the ground and they have joints and they go to valves, the valve metrics, all of those studs are an alloy stud; typically, of a Grade B-7 or an L-7. All our LNG facilities along the coast, import and export, all have a variety of alloy studs in that facility, some of them for high strength, some of them for low temperature, cryogenic applications. Again, higher strength due to the alloy that is in the product.

CHAIRMAN JOHANSON: So there's of course a great deal of difference in the products being created. When I think of steel threaded rod, I came into the hearing thinking it's a commodity product, which I think it is to a certain extent in the building trade, it sounds like in oil and gas, it's more specialized?

MR. DIORIO: It is a little bit more specialized. However, we treat it as a commodity, as do our customers. The service aspect is being able to have it in inventory and being able to deliver it, but it is a commodity threaded product as well.

CHAIRMAN JOHANSON: As the imported products coming in more for the construction industry or the oil and gas industries? It seems that it's so specialized, it would appear normal for certain products to be produced, let's say, in the Houston area where you are, but perhaps not be produced in other countries.

MR. SCHAGRIN: Chairman Johanson, to the best of our knowledge and I think the staff report supports this, is that they're coming in heavily for both applications and I think, as Mr. Diorio testified, even though the products used in oil and gas, in general, will be of higher grades than the products used in commercial construction, they are still just made to common specifications, specifications delivered that are drafted both by the ASTM and/or the API, but it's still just a product made to a specification for use in these applications.

And there are tremendous volumes of unfairly-traded imports coming in meeting those specifications, just as there are meeting the other specifications that are more common in construction, and the same for the domestic industry. The domestic industry can produce all the specifications that are used in construction and can produce all the specifications that are used in the oil and gas industry. Even though they are generally different specifications, both the domestic industry and the imports both make large quantities of products that meet those specifications.

MR. LOGAN: I serve on an ASTM committee called F16 for specification called F1554, which is actually both a carbon specification and an alloy specification. And the alloy specification, part of that spec is basically B7, and it is wholly used, that specification is geared towards the construction industry. So there's not an "either-or" here.

There is a "both". And alloy and carbon are being used in both oil and gas applications and in construction applications.

MR. GROSS: I would just like to add, twenty years ago I worked heavily in pump-and-valve and nuclear and toward Houston looking for vendors, where there was a very strong supply of domestic manufacturers, I was surprised five years ago when I was touring China, that I went to many factories that had been private labeling, these fasteners to these ASTM standards for those manufacturers who, twenty years ago, were making them in the United States. So it's very much turned--in my opinion, very much turned to a commodity.

CHAIRMAN JOHANSON: And my apologies if this is covered in the staff report, I don't recall, but do you know how much steel threaded rod is used in the oil and gas sectors, as opposed to non-residential and commercial construction?

MS. DRAKE: Chairman Johanson, Elizabeth Drake. I believe it's not covered in the staff report. There's data on distributors versus end users, but not different kinds of markets. But in our discussions yesterday, I think we had a rough estimate that it might be about half and half, in terms of demand, half construction and half oil and gas. But there's no data that we have that would answer that question precisely.

MR. SCHAGRIN: Chairman Johanson, it's almost scary that we might be thinking alike, but after I read the staff report and I noticed that kind of channel wasn't addressed, that was one of my first questions for the industry yesterday.

So, you know, based on your experience, I mean, how much of this is oil and gas and how much is construction and I was surprised when they said it's about 50-50, which just shows how much and how prevalent these products are in the oil and gas area and why they're suffering from the decline in demand coming out of that segment as the rig count's been declining.

CHAIRMAN JOHANSON: Okay, thank you. Yeah, I find this kinda interesting. I took one engineering class in college, Petroleum Engineering 101, and so I know a little bit about this. I made an A by the way. I was very surprised. I didn't stick with that field of course.

I think I know the answer, but I'm gonna ask this anyway. Do U.S. producers tend to serve distinct parts in the market for threaded rod? Or do you cover the whole sector?

MR. BLACK: Pretty much we -- a customer calls, we supply it, whether it's through distribution or directly. So, I mean, again, there's specifications for a lot of different products, whether it would be alloy, whether it'd be low-carbon, so for us, the more customers, the better.

MR. GROSS: I'd agree with Dennis, especially in low-carbon and alloy, and no matter what configuration an inquiry comes, we can quote it and produce it.

MR. DIORIO: We supply to OEMs, the original equipment manufacturers, typically in the upstream side of the oil and gas sector. And in the midstream, so the pipelines to take it from the wells to a terminal or to the refinery. We sell to the pipeline installer, and then on the downstream side--inside the fence, so to speak--at the refineries, at the petro-chem plant, we'll sell to distributors, and then we also sell to EPCs, folks that do Greenfield construction sites and LG facilities, we'll sell to that engineering and engineering procurement construction company. Four different channels.

CHAIRMAN JOHANSON: Okay, thanks for clarifying there. The yellow light's on, so we're now gonna turn to Commissioner Kearns.

COMMISSIONER KEARNS: Thank you. I have a few more questions about pricing. One, just to continue on from what I was asking before about how prices are set in the market. In negotiations with purchasers, are your raw material costs or other costs--oh, I think we're already kind of addressed that--I don't know if anyone wants to say anything more about the extent -- I guess we focused more on contracts, but outside of contracts, in negotiations with purchasers, are your raw material costs an explicit factor in the discussions?

MR. BLACK: For us, it's not. I mean it's more of a demand than a supply type of agreement, size, application. But raw materials, it's just not part of that industry compared to others. It's not thought about, especially construction.

COMMISSIONER KEARNS: Anyone else?

MR. DIORIO: Paul Diorio, Dan-Loc. It's never a discussion with us. We have very few, beyond spot buys, so it's always delivered product. The price is the delivered product, either at our dock or construction site.

COMMISSIONER KEARNS: Okay. And how common is it for purchasers to reference import prices on threaded rod in price negotiation?

MR. GROSS: It's very common. I have people that I've had relationships with for twenty years in the industry, so I know them very well, and they're very astute about telling me where import pricing is when I'm trying to quote domestic, in trying to get me to some number close to those prices.

MR. BLACK: I think I don't have much to say other than Wally said it very good. It comes up a lot.

We're always cognizant of it in trying to stay close.

MR. JENKINS: It comes up all the time with customers. They're trying to get us to meet an import price. We are a member of at least four different associations that bring together suppliers in the construction market, as well as distributors, and at these annual meetings, there's table-top sessions where you have twenty-minute face-to-face meetings with dozens of customers.

And typically, these are the larger distributors. And every single meeting goes with, "This is what I'm paying for import. If you can get there, I'd rather buy domestic," but typically we can never touch those prices. But it does come up, it's the first thing they bring up.

COMMISSIONER KEARNS: Okay, thank you. And if you all have any other documentation of that, e-mails or so forth, that'd be helpful. But I hear your answer, which is more about in meetings, so I wouldn't expect it there, but if you have any further documentation of that, that'd be helpful post-hearing.

MR. SCHAGRIN: And Commissioner Kearns, I would say, because such an excellent staff report, that as compared to a lot of other industries here, the amount of the documented lost sales is overwhelming. I think this is one of the cases that we have had with the most confirmed lost sales and with purchasers saying time and again, and giving quantities in their purchaser responses saying that, "We shifted X amounts of millions of pounds of purchases from domestic to subject imports because the imports was at a lower price."

I think the total reported of just the purchasers responses received was about twenty-three million pounds over the POI of increased import purchases just because of price. That's a--for documentation in the staff report--that's extremely large number as compared to other cases.

COMMISSIONER KEARNS: Okay, thank you. And Mr. Jenkins, you touched on this just a second ago--but I think I heard someone else say it as well--that customers prefer to buy domestic. I think someone on the panel may've even estimated, maybe it's 10 or 15%, you know, willingness to pay 10 or 15% more for domestic than imports. Did I hear that right? And anything else you'd like to say about all that?

MR. JENKINS: That's pretty common. I mean it depends on the customer. Some customers may have no preferences. It's 100% about price. But I would say 99% of all customers, the number one driving point of getting a sale is your ability to meet price, and the customers are only willing to pay so much more for domestic product. But yes, I think most of our customers would prefer to buy domestic, if the price were close. But too often, it's not close.

MS. DRAKE: Commissioner Kearns, just quickly. I think your staff report confirms that the vast majority of purchasers report that neither they nor their customers make decisions based on origin or the producer. And also, a majority of purchasers confirmed that they always or usually buy the lowest-priced product. So clearly price is number one for them.

COMMISSIONER KEARNS: Okay. Mr. Graham, did you wanna say something on this, too?

MR. GRAHAM: I just wanted to make maybe an obvious comment. We do think that -- if I'm a buyer of steel products, and I have the ability to get producers in a day or two, by a truck from a domestic supplier, that allows me to run a more cost-effective operation because I don't have to have all the working capital. I don't have to deal with the whole import process. I don't have to wait however many weeks it is for a ship. And I say that because that reinforces the fact that they're willing to go through all that to get the pricing they're getting, if that makes sense.

COMMISSIONER KEARNS: Yeah, okay, it does. Thank you. Just some more kind of cleanup questions, I'd call them. One on domestic industry, and I guess this is a question for the lawyers -- I know you all said it doesn't matter, you know, it's in terms of the impact on the numbers. But what should we do in any event? Who should we exclude? I know we've got one -- we've got some companies here that are smaller and probably wouldn't have much of an impact, but anything you can tell us about -- I mean, what's the right way for us to make that decision? Either now -- or post-hearing is fine.

MR. SCHAGRIN: So Commissioner, we'll address the particulars because it's all based on confidential information company by company. While we point out in our prehearing brief that it doesn't make a difference of course, like you all are as Commissioners we are as practitioners. We're concerned about the process and the precedents.

So even if it doesn't impact the trends, we think it's very important that the Commission establish good policies of excluding and, as you're supposed to do under the statute and in your practice from the domestic industry, producers who -- for whom imports are so significant the act of importation, resale of the imports essentially skews their data and makes them look less like someone who is a domestic producer.

So yes, even though it doesn't have an impact as to probably the final decision in this case, who you include or who you exclude, the process is important and I think we'll address all of it by company confidential in our post-hearing brief.

COMMISSIONER KEARNS: Okay, and the only other thing I would say on that is another way that the data can be skewed is if you see a U.S. producer who is producing a whole lot less and has decided to import a whole lot more, you know, excluding them and saying well, they're not really a producer can also of course skew the data that way as well, and so it's something to keep in mind when you all brief the issue after the hearing.

MR. SCHAGRIN: And just think about one final comment from Roger Schagrin. I mean think about the fact that there's only roughly eight remaining producers in this industry, and when we were doing our research at the beginning because it's so different than it would have been a decade or a couple of decades ago because of Panjiva, Pierce, etcetera, you know, we're going through who's listed as importers on these bills of entries, and it's like oh my God. It looks like other than Petitioner, every U.S. producer has been forced to become an importer, because they can buy imports at less than their cost of production.

That's what happens. That's the beginning of -- that's the death knell for an industry when you can import product at less than your cost of manufacturing. But we'll address it more fully in our post-hearing. Thank you Commissioner Kearns.

COMMISSIONER KEARNS: Okay thank you, and since my time is short, let me just ask one more quick question on critical circumstances. Considering the data in the prehearing report, are you any longer arguing we should find critical circumstances for Thailand?

MR. SCHAGRIN: Ms. Drake tells me it's all confidential. So we'll address it in our post-hearing.

COMMISSIONER KEARNS: Okay. Thank you. My time's about up. I'll turn it back over.

CHAIRMAN JOHANSON: Commissioner Stayin.

COMMISSIONER STAYIN: Thank you. You spoke earlier about the issues of importation and with alloy and carbon, and have you been experiencing circumvention of the carbon duties by wrongly labeling the product coming in as alloy?

MR. SCHAGRIN: The answer Commissioner Stayin is yes. This industry has spent a lot of time with previous counsel and then since we've become counsel, in working with Customs to try to address circumvention of the carbon order by mislabeling carbon products as alloy, even though they didn't contain all the appropriate alloy materials.

That's, I can tell you doing a lot of work in steel, that if I had it to do all over again, you know, 30 years ago I would have said it's all carbon and alloy, because the amount of circumvention over the past couple of decades is massive. To be honest, Customs simply -- they've got the labs. There's about five labs around the country. The only way you can prove that is Customs has to actually take the steel into a laboratory and do the chemical analysis and say gee, the mill test report says .23 silicon, but I don't see any silicon or I see .05.

So you can just imagine with all the circumvention, the only way Customs can prove it and then assess the duty is doing the lab work. They just, talk about under-utilized or not having enough capacity, the Customs labs simply do not have enough capacity to do the analysis when the domestic industry says gee, there's product coming in that they're claiming is alloy and it doesn't really have the alloying elements. So there's been a lot of circumvention of the carbon dumping case here.

MR. LOGAN: This is Alan Logan with Vulcan. We've also seen circumvention through country of origin issues, where product was shipped from China to another country and then labeled as a manufacturer of that country, which we have proved to be false.

COMMISSIONER STAYIN: Is this happening from all of the importing countries, or is it --

MR. SCHAGRIN: No, it was just China because of the China carbon order. So we will see later, after we hope these orders go into effect what happens. But I can tell you, just based on experiences in plate for 20 years of carbon only cases and now having orders of carbon and alloy, that boy it really solves most of those problems, that we just don't have to worry about them anymore.

We will generally as to transshipment, China is the king. You can -- and it does not apply as much to countries like India, Taiwan, Thailand. You can literally go online and find advertisements for 50 Chinese shipping companies who will claim that they can easily change country of origin of a Chinese product and country of origin of ten other countries. So it's its own business in China.

COMMISSIONER STAYIN: I know we've talked a lot about price, and in the questionnaire responses, there were a variety of other concerns with respect to purchasing. And I'd like you to comment on the results of some of these questionnaire responses, that found that issues such as quality, availability, reliability of supply, product consistency, delivery time, delivery terms, these all seem to be of some concern to purchasers. To what extent have these other concerns benefitted you in your competition with the price issue?

MS. DRAKE: Commissioner Stayin, Elizabeth

Drake, Schagrin Associates. Just to start and maybe others can comment. In terms of the overall data in the staff report, while it shows that those factors are important, a number of them are listed as top three factors. A number of them are rated as very important or somewhat important.

I think what's most telling is the table that compiles the purchasers' responses in terms of comparability between domestic product and the subject imports, and the majority rate domestic and imported comparable on availability, comparable on quality, comparable on consistency, reliability, etcetera. The one factor that over and over again they are not comparable on is price, where the imports are priced lower.

So I think given the importance of price, given those consistent answers about lower prices, that's why competition comes down to price between imports and domestic product.

COMMISSIONER STAYIN: Thank you very much. That finishes my questions.

CHAIRMAN JOHANSON: Commissioner Karpel.

COMMISSIONER KARPEL: Thank you. Going back to the questions I had on alloy and carbon steel threaded rod, is it your view that imports of alloy steel threaded rod are taking market share from domestic sales of carbon steel-threaded rod? I think I know the answer to that, but what can you point me to in the staff report or elsewhere to be the facts underlying, you know, such an assertion?

MS. DRAKE: Thank you, Commissioner Karpel. Elizabeth Drake. I mean I think as a general matter, we're not looking at the markets as being separate. We look at it as one market, of course, because we see it as one domestic like product. But I do think there is some confidential data in the staff report about the portions of imports that are alloy versus carbon, and the portions of domestic shipments that are alloy versus carbon. So maybe we can look at those post-hearing and try to answer your question based on that data.

COMMISSIONER KARPEL: Yeah, and I think that's where my question really came from. I'm looking at Table IV-5 for example, and that's where the question is coming from.

MR. SCHAGRIN: So Commissioner Karpel, we'll do that in the post-hearing. But it also gets back to an issue I think we've addressed in a number of Commissioners' questions, is that because of the dumping order on carbon from China we saw, as I think you saw in Ms. Drake's originally tables at the beginning, you know, we saw reported carbon imports from China fall by 80 or 90 percent, and reported alloy imports from China go up by 500 percent since the carbon order went into effect.

No one knows except for the Chinese, who refuse to provide any producer responses, how much of the Chinese product that is classified in HTS codes that are for alloy product, is really just carbon. What we do know from the marketplace is that the Chinese still sell the carbon grades, and yet we believe they are entered as alloy because you can meet a carbon specification and have additional amounts of any one of 20 alloying elements.

So you can be a carbon spec product but enter the United States in an alloy, and be perfectly legal if you just added a little alloy element, and we don't know when it is legal or not legal. But that's why we believe that there is a lot of competition between the Chinese alloying entered products and the U.S. carbon production, as well as U.S. alloy production.

COMMISSIONER KARPEL: So are you suggesting that product is coming in as alloy to the importer, and then the importer is turning around and selling it as a carbon product?

MR. SCHAGRIN: Whether they sell it as carbon, yes. In fact, they can sell it as a product that is a specification that is normally a carbon specification. And as I say, I mean we see it in this marketplace and we saw it in cut to length plate all the time, where there were two different, and Alan can, because he's an expert in these specifications.

But there were clearly traditionally a carbon specification and then a separate alloy specification. The Chinese consistently state in the market selling product to that carbon specification, even though they entered it sometimes legally, sometimes not legally, in an alloy tariff classification to avoid the payment of the dumping duties on carbon. Alan, do you have anything to add? I think I may have said it all, but that's what we've heard from our clients.

COMMISSIONER KARPEL: So I thought I heard something also earlier where--so there may be situations where it's coming in as alloy and then being turned around and sold as a carbon product. And then you said there's also situations where it's still being sold as an alloy product in the U.S. market but it's being sold at a price that is just as cheap as the carbon product.

And I think I asked this earlier, but I think I ran out of time on my clock to get an answer from you all about that, but is there something in the record, or something you could provide that substantiates that idea, that alloy product is being sold as cheaply as the carbon products?

MS. DRAKE: Elizabeth Drake. I think we'll have to answer that posthearing so we can look through the whole record and see what is most responsive.

COMMISSIONER KARPEL: And then on capacity, I wanted to turn to capacity. We're seeing in the record pretty low--and we've heard all of your testimony say a very low capacity utilization rates. I've also heard you discuss about plans to add additional capacity.

I'm trying to square those two in my head. If you have so much unused capacity, wouldn't the goal first be to get that unused capacity up to a higher number before adding new production?

MR. GROSS: Wally Gross, Bay Standard Manufacturing. As a smaller manufacturer, we are running 24 hours a day, 6 days a week. We have the ability to increase capacity based on available space for equipment and available power. So we are running at a fairly high capacity, as you can see in our growth over the past three to four years. But we have aggressive expansion plans, and the ability to, as I put in my testimony, to double our production capacity in 12 to 18 months.

MR. BLACK: This is Dennis Black from Vulcan Threaded Products. I think the answer is yes to both of those questions. I think that we normally run two shifts of 40 hours. So that's only 80 hours a week. There's obviously 168 hours a week. So existing equipment could be ran longer with different, you know, different people, obviously, and crews. And as I stated earlier, we purchased the assets of a competitor, and that equipment is in storage.

So at one point, you know, depending on demand, we would deploy those assets when we couldn't keep up at our existing facility by adding people or shifts.

MR. DIORIO: Paul Diorio. As I mentioned before, we've been operating at 10 percent, 10 to 15 percent. So directly to your question, we're anticipating not only filling up our capacity, but also meeting the market demand for other folks in the Houston area, in the Texas area, Gulf Coast area, that are strictly importers.

And as their inventories deplete over the next period of time, we are in anticipation that we are going to have to meet the increased demand for that void. So, yes, we are going to fill up our capacity, but we think that there's additional capacity that will have to be able to have on hand to be able to meet the increased demand, if these orders go through.

So, yes, to both your questions.

COMMISSIONER KARPEL: And in terms of capacity, some mentioned that of the produced alloy, it's just a matter of buying the right raw material. Others said there's a heat treatment. For those that add a heat treatment, do you have capacity there, or plan to add capacity there to ensure that you can produce alloy if the rise in demand for your product happens?

MR. BLACK: Dennis Black, Vulcan Threaded Products. At the moment, with obviously the steel market kind of depressed, at this point our heat-treat capacity is not full on that side of the fence, either. So we do have capacity in the heat treatment, where maybe in 2018 that capacity was higher, the utilization was higher than it is now. But right now our utilization of our heat treatment is pretty low. So we believe a lot of that can be taken with the threaded product.

MR. GROSS: Wally Gross, Bay Standard Manufacturing. Though I am not directly the producer of the bars, my supplier is currently installing a second heat-treat line to support a hopeful affirmative determination. That is supposed to be operational as soon as this January or February.

MR. GRAHAM: Chris Graham, Steel Dynamics. Can you hear me okay? I think the lens that many of us look through, if one looks at a healthy flat-rolled steel market supply chain, not judging whether it's right, wrong, or otherwise, but in flat-roll we don't make everything in the country that we consume. Historically, we make 100 million tons a year and consume 120 million tons of steel, I guess, flat-roll is included in that and others.

But this one--so we believe that obviously is good for the consumer, who we have to remain competitive because they have options. We believe this one, this market is so upside down that in a normal competitive environment it would fill up our existing available capacity and more.

And so we are trying to prepare to react accordingly. So I think that's what we're looking at. If it was a normal trade situation, we believe we'd have to fill up the Vulcan plant in Birmingham, deploy those all-American assets, and maybe look for further growth opportunities.

CHAIRMAN JOHANSON: I have just one more question. Vulcan has argued that imports of carbon steel threaded rod from India and Thailand have increased since the Commission's negative determination in an earlier threaded rod investigation involving these two countries in 2014. And this is in your brief at pages 27 to 28, and also Exhibit 7.

The cited data in your brief at Exhibit 7 shows that during the Period of Investigation imports from Thailand were roughly half what they were in 2012 and 2013. Do you know what explains this difference in import volume from Thailand?

MS. DRAKE: Elizabeth Drake. Yes, the data just for the carbon steel threaded rod is split out between India and Thailand instead of shown jointly, which is how we showed it since they were cumulated for those investigations that started in 2013.

You will see that, while India has exceeded its peak, Thailand hasn't yet exceeded its peak. But in 2014, the year of the negative determination, imports from Thailand were at just a little bit under 3 million pounds a year. And already in 2018 they're up to nearly 12 million pounds a year, just the carbon from Thailand. So they obviously also have been increasing very rapidly, just like imports from India. And then this doesn't include additional increases that we saw in 2019.

CHAIRMAN JOHANSON: Okay, thanks for that response, Ms. Drake. That concludes my questions.

Commissioner Kearns?

COMMISSIONER KEARNS: Okay, thanks. I have just a few more here.

One--and this is a question I think for the lawyers--as stated in the prehearing report at pages 1-5, the import data in the prehearing report are based on three HTS numbers. Can you comment on the extent to which the other two HTS numbers ending in 1-5-2095 and 1-9-190000, listed in Commerce's Scope, contain in-scope products?

MS. DRAKE: Elizabeth Drake. Yes, we can do that posthearing, Commissioner.

COMMISSIONER KEARNS: Okay, thank you. And just one last follow-up on the pricing questions. I know we've talked about this to some extent, but there's one I meant to ask that I didn't.

At times the raw material costs have been declining. Have purchasers asked for lower prices to take this into account?

MR. GROSS: Wally Gross, Bay Standard Manufacturing. The answer to that question is, yes. One of the--where things work well for me as far as keeping things stable and not having to immediately react to lowering raw material costs, is the value-added services that I put into my product and how I get it to the customer.

And that gives me some flexibility with increased minimum wages in California. I can many times offset their request. But if push comes to shove and it still continues to--prices continue to lower, then I eventually have to react.

COMMISSIONER KEARNS: Anyone else?

MR. JENKINS: Brent Jenkins from Vulcan. Yes, customers, if they're aware of what's going on in the steel market and they see that steel prices are lowering, they're usually pretty quick to ask for a better price. That's all I've got.

MR. DIORIO: Paul Diorio, Dan-Loc. Customers ask that question, but not in the words that you used. What they do instead is they'll shop us. They'll go out and get our price, and they'll go out and get two or three other prices, and then they go with the low price. So we track that. We track that kind of a question through loss of quotes, or loss of our--our win percentage drops.

So, yes, they do ask the question, but not in your words.

COMMISSIONER KEARNS: Okay, and--go ahead, please.

MR. BLACK: Dennis Back from Vulcan Threaded Products. I would say we have a small percentage that asks, especially if they buy other steel products, so they understand that. But really in our threaded market the import pricing is really the indices. So if that moves, that's when you see it on our side. I mean, unless they buy other steel products and realize it, but a lot of our people in construction and others, they don't buy other steel products, so they're more worried about that. So really the indices they hold us to is import pricing.

COMMISSIONER KEARNS: Okay, thank you. And, Mr. Diorio, is the reason why you say they shop around, and do you kind of figure out that this is a raw material issue because they're shopping around with other potential suppliers who have different raw material costs maybe because they are operating overseas? Or how do you sort of see the raw material aspect of shopping around?

MR. DIORIO: Most of the people--Paul Diorio, Dan-Loc--most of the people that we compete with are straight importers. Very few producers.

So the raw material cost is the overseas' raw material cost, the finished product.

COMMISSIONER KEARNS: Okay, so you say, when you see your customer shopping around, you mean they're shopping for imports and that's how you sort of see the raw material difference there factoring its way through?

MR. DIORIO: Correct.

COMMISSIONER KEARNS: Okay, gotcha.

MR. SCHAGRIN: Commissioner Kearns, can I just add--this is Roger Schagrin. In some of the steel cases you'll have purchasers come to the Commission to argue against the imposition of duties. And you'll hear well, you know, my domestic suppliers are saddled with a higher cost supply chain. I can remember the tin mill cases, and the can guys would say, you know, the U.S. integrated industry making tin mill, they've got all these 50-hear-old mills. The Japanese have, you know, 10-year-old mills. So obviously they're more efficient. They've got newer equipment.

Virtually 100 percent of the raw material supply for threaded rod is made in the United States in electric furnaces. Bars and rods are not made and integrated. We have, and I think everyone in the world would admit this, the United States has the lowest prices for scrap in the entire world. We are the big scrap creator, and we're the big scrap exporter.

We have the most efficient electric furnace minimills. I mean, no one can ever say that Nucor and SDI aren't the two lowest-cost electric furnace producers in the world.

So we actually have a supply chain for this product in the United States that has not the lowest prices possibly but the lowest cost suppliers in the entire world. And yet you see a staff report that shows that well over half the U.S. market is being taken by foreign producers who have much less efficient supply chains, and who have to absorb all the freight to get it to the U.S. market.

So if there was ever a case in which a U.S. industry is getting battered with every law of comparative advantage on their side, this is that case. And it's just amazing.

And part of it is, yeah, I mean in any trade policy you get some inconsistencies, and I think we started here with some questions from Chairman Johanson: Has there been an impact on this downstream industry of 232 tariffs on the upstream? Yeah, we'd be crazy. There's been an absolutely significant impact. Has there been an impact of--and it's right in the staff report--of antidumping duty orders on wire rod supplies from 10 countries? Yeah, absolutely there has been.

So as we're trying to keep probably less efficiently, less environmentally compliant raw materials out of the U.S. market through our trade policy, you've got somebody downstream from that who is just getting clobbered. And in part it's because all their foreign competitors say I'd rather ship a value-added threaded rod product to the U.S. and not pay extra duties than ship rod and pay dumping duties, or ship rod or bar and pay 232 duties.

So you really have some, let's say, separate situations going on here. But this is an industry which can expand because there's plenty of low-cost domestic supply of bar and rod that can quickly furnish existing and new capacity to make threaded rod for U.S. consumption.

COMMISSIONER KEARNS: Okay, thank you. Just to finish off the question, so you all say that when you have lower raw material costs that your customers, you know, what your prices to be lower. How do you mesh that with what you said earlier, which was that rising costs are not part of discussions with purchasers?

MR. LOGAN: We're really in an untenable Catch-22 position. I can assure you if a buyer sees that raw material costs in general are going down in the United States, he'll be quick to call us and say, "Hey, your costs are going down, we should get a better price."

However, on the flip side of that, if costs are going up, the answer is not, "Oh, your costs are going up," it's, like, "Oh, my import price is here, so you need to be competitive with this import price." So they want us to go down in a down market, but we can't go up in an up market. That's what makes it so difficult.

COMMISSIONER KEARNS: Okay, thank you. Turning to profitability, the actual data, of course, BPI, and I know what the statute says about profitability in this profitable industries, but I note that the industry's profitability remained reasonably positive and some of the trends in operating income and net income ratios were positive. Can you explain how this meshes with your material injury arguments?

MR. SCHAGRIN: So yes, two points. First, they are declining, but the other thing is that over the period of investigation, the profits and profit margins are declining during a period in which demand was increasing rapidly. So in the context of the business cycle, profitability is horrible because this industry will face the next downturn it already is in the energy markets.

So whether you look at the decline in the context of the big increase in demand and say profits should never be declining during a period of significant increase in demand. Or you look at it absolutely and say, look, while imports were increasing over the POI, the domestic industry's profits were declining.

And we don't think for the Commissions' analysis, it makes any difference that profit margins may have been positive throughout the POI. The key is the downward trend in the margins, particularly in light of the period of increasing consumption over the POI.

MS. DRAKE: This is Elizabeth Drake, just to add to that, I think the only period where--I think this is public--there may have been some increase in profitability was the interim period. But that's also where you saw, even though demand was continuing to increase, not only did shipments not keep up with demand, they actually declined on an absolute basis. And the domestic industry's market share was at the very lowest of the period.

So, to the extent that they were able to gain some better pricing or changed strategies in that interim period, they definitely paid the cost in terms of volume. And so I think, to the extent there was some positive trend for some small part of the period, it showed up in even more negative trends on the other side.

COMMISSIONER KEARNS: Okay, thank you very much.

CHAIRMAN JOHANSON: Commissioner Stayin.

COMMISSIONER STAYIN: I have no further questions. I've had my questions answered through my colleagues and their questions as well. Thank you.

CHAIRMAN JOHANSON: All right. Commissioner Karpel?

COMMISSIONER KARPEL: Yeah, just a few more. Can you talk a little bit about certification and how important certification is to purchasing decisions? I think there's some information in the staff report about lack of certification being a barrier to some purchases.

MR. GROSS: By the nature of our business and the liability, especially in construction for these tie-down systems, certifications are extremely important. We maintain lot traceability through production, through our inventory, through delivery. So it's very critical to our business.

COMMISSIONER KARPEL: Follow-up for you. So, have there been any concerns from purchasers that wanna have your product certified, so they can use it, and haven't been able to have that done, or --

MR. GROSS: To answer your question, no, we're very stringent on everything we produce, meeting ASTM standard. We test to it and certify to it.

COMMISSIONER KARPEL: You're certifying to the purchasers that you meet these standards? Is that --

MR. GROSS: Yes, that's what we're doing.

COMMISSIONER KARPEL: Okay.

MR. LOGAN: I'm not aware of anything that is coming into the United States that we couldn't certify ourselves, that we couldn't manufacture and certify to. Certifications are extremely important. Standards are extremely important. More so today than they have ever been. The construction industry is taking on more standards for themselves. They're actually and being more active in the ASTM body to actually from a bolting standard, so yeah, certifications are extremely important. We have our own in-house lab. We're in the process of becoming an ISO 17025 certified for ISO lab. So testing we take very seriously.

MR. SCHAGRIN: I'd point out the foreign producers and the subject imports also provide melt test certificates that they meet the same specifications that the U.S. producers do. So we don't see, which is, I mean, it's borne out by the high import penetration rate, where imports are having any problem penetrating the U.S. market because of any inability to certify that their products meet the specifications required by the purchasers.

MS. DRAKE: This is Elizabeth Drake. I would just echo that, that the staff report also shows that, of those purchasers that had knowledge of different country sources, either 100% or close to 100% for each country said they always, or usually, meeting minimum quality specifications. So, to the extent someone might've raised it in one questionnaire response, it's not typical of the market overall.

COMMISSIONER KARPEL: This is probably more of a curiosity question, but on the certifications, is this mostly purchasers accepting the producers' self-certification that the standards are met? Or is there any type of requests that these be certified or tested by a third-party?

MR. GROSS: Most of our business is generated by an inquiry from our customer who, as far as ordering practices, would give us the description of the product and the standard that it needs to meet, and then we meet what the customer requirement is. That's it.

MR. SCHAGRIN: I believe in answer to your question for that, that in this industry, it's almost all producer self-certification with what are called mill test reports, and that there's very little third-party testing of these products. It's almost all in-house testing by the producers who provide a test report showing, "These are the tests we've performed, and these are the mechanical and chemical properties of the product that we are supplying you."

But they do supply paperwork, which includes the steel and the steel heats, and where it came from. So if there's a problem later on, people know who they ought to be suing. But it's generally not in the broad range of construction products, the big construction distributors are relying on their suppliers and they're not going out to third-party testing.

COMMISSIONER KARPEL: All right, thank you. I think I just have some cleanup questions. So let me go through to make sure I've got my questions answered. So, on demand, I think I'm hearing that the demand for alloy and carbon is increasing on both -- they follow the same demand trends. There's not a difference -- is that -- OK.

And on pricing, I'm looking at the data on underselling, and I don't wanna say too much, because all the data there is proprietary. But I wondered, if in your post-hearing brief, you could address some of the different--at least in magnitude--underselling was seen for Products 5 and 6, which are alloy products and what that means in terms of price effects, and also in light of the sort of composition of alloy versus carbon, in terms of import volumes.

MR. SCHAGRIN: We'll do that post-hearing, Commissioner Karpel.

COMMISSIONER KARPEL: And then, sort of curious, and this is going back to another line of questions I had. I'm looking at a Table 4-5 and they're showing breakdowns by alloy, non-alloy products and market shares, as between domestic and imported product.

I wondered, I wonder what that data would look like if it was showing a range of years, not just that one sort of chunk of time--which I believe is February 2018 to January 2019--so if you could elaborate on that. I guess another way to ask that question is what would Table 4-9 look like if it were broken down into alloy and non-alloy.

I also had a hard time following a footnote, Footnote 10 on Page 4-9, and it's talking about the purchase of Acme by Vulcan, and I think it's giving some reasoning there, it's in brackets, so I don't wanna say what it is here, but if you could maybe give that a second read and explain that a bit further in light of what I heard today was the reason for the purchase of Acme's assets was to generally increase production. Okay, thank you. That's it. I don't think I have any further questions.

CHAIRMAN JOHANSON: Do any other Commissioners have questions for this panel?

COMMISSIONER KEARNS: Yes, I just have one quick question. I seem to recall hearing -- and this may have been something that came up on the Commerce side of things, but -- if I recall correctly, are there vat rebates in China that are progressively larger the farther downstream you go in the product cycle? Do y'all know anything about that? Is that the case? And I guess, I'm wondering, are the rebates greater for threaded rod than rod, or threaded rod than, you know, raw material even farther up the value chain?

MR. SCHAGRIN: I can't answer the first part of the question, Commissioner Kearns, and we'll research and provide an answer to the second part, because we have access to the Chinese vat schedules and we have Chinese speakers who can go through those at the firm.

But one thing that I know has been present for many years in China is that their vat rebates were higher for alloy products than for carbon products, and were higher for stainless products than for alloy, just reflecting, going up the value chain. And so, in addition to circumventing U.S. or orders in other countries on carbon products by claiming your products was alloy, even though it might have still just been carbon, there was the additional incentive of getting more vat back from the Chinese government by claiming that your product was alloy, even if it was just carbon.

So in general, like, most vat systems, there has been a reward for getting more vat back by being further down in the value-added chain. But let us do some research and give you a specific answer in our post-hearing brief.

COMMISSIONER KEARNS: Okay, thanks, I'd appreciate that. And then, also, I guess, in addition to the point you just made about more of an incentive to claim it's alloy when it's not -- I guess it would also just provide more of an incentive to produce an alloyed product.

MR. SCHAGRIN: Absolutely. Yes.

COMMISSIONER KEARNS: Which would create even more of a competitive overlap for you all. Okay, thank you very much. I have no further questions.

CHAIRMAN JOHANSON: Do staff have any questions for this panel?

MS. HAINES: Staff has no questions.

CHAIRMAN JOHANSON: All right. Then we will now turn to petitioners' closing. This panel is dismissed. I will note that you have a total of five minutes for closing.

CLOSING STATEMENT OF ROGER B. SCHAGRIN

MR. SCHAGRIN: Because there's no opposition, Chairman Johanson, members of the Commission, we're not going to have the normal closing argument. I just want to take time to first thank all the Commissioners for being here and giving us your time this morning.

Secondly, I want to thank the staff for the quality of their staff report. Not only did they have to overcome the fact that they didn't get any cooperation from the Chinese and Tai industries, but we're all aware of how great the workload is right now at the Commission, so I think it is something that is worth pointing out that the quality of your staff reports, and this one is excellent, are just as good when you're extremely busy as when you are less busy, and that says a lot, both about the staff at the Commission and the Commissioners, that you're able to keep the quality up in spite of greater work. Even we in the private sector struggle to keep up the quality levels while the workload is expanding.

And finally, I think the staff report speaks for itself. I think that this is a case where imports just increased at such tremendous levels, buying through unfairly traded low prices market share in the United States to the point where the U.S. industry could not do well during a period of rising consumption. They undersold the domestic industry. They caused price unprofitability problems; they caused a loss of market share. And now, unfortunately, this industry is probably facing a period of lower consumption levels. It didn't benefit on the upside and if they don't get relief from these unfair trade practices many of them will go out of business in this next period of lower consumption. So, we ask you to make affirmative determinations and again we thank you for your time here today.

CHAIRMAN JOHANSON: Thank you, Mr. Schagrin, and thank you for comments on the quality of work of our staff. I know that they appreciate it. They are, indeed, very busy right now.

Alright, well, thank you all for appearing here today. I will now make the closing statement. Post-hearing brief statements, statements responsive to questions and requests of the Commission, and corrections to the transcript must be filed by October 22. Closing of the record and final release of data to parties occurs on November 6, 2019, and final comments are due on November 8. With that, this hearing is adjourned.

(Whereupon the meeting was adjourned at 12:14 p.m.)

CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Carbon and Alloy Steel Threaded Rod from China, India, Taiwan, And Thailand

INVESTIGATION NOS.: 701-TA-618-619 and 731-TA-1441-1444

HEARING DATE: 10-15-19

LOCATION: Washington, D.C.

NATURE OF HEARING: Final

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: 10-15-19

SIGNED: Mark A. Jagan
Signature of the Contractor or the Authorized Contractor's Representative

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker identification and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceedings.

SIGNED: Christopher Weiskircher
Proofreader

I hereby certify that I reported the above-referenced proceedings of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceedings.

SIGNED: Gaynell Catherine
Court Reporter